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HEARING

ON

H.R. 3743

TO PROVIDE FOR THE ESTABLISHMENT BY LAW OF THE GOALS FOR THE NATIONAL DEFENSE STOCKPILE, AND FOR OTHER PURPOSES

BEFORE THE

SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

FEBRUARY 27, 1986

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99TH CONGRESS
1ST SESSION

H. R. 3743

To provide for the establishment by law of the goals for the National Defense Stockpile, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 13, 1985

Mr. BENNETT introduced the following bill; which was referred to the Committee on Armed Services

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A BILL

To provide for the establishment by law of the goals for the National Defense Stockpile, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. STOCKPILE GOALS

(a) PURPOSE OF STOCKPILE.—Section 2 of the Strategic and Critical Materials Stock Piling Act is amended by adding at the end thereof the following new subsection:

"(c) It is the intent of Congress that—

"(1) the National Defense Stockpile be used to serve the interest of national defense only and not be used for economic or budgetary purposes; and

"(2) the quantities of the materials stockpiled should be sufficient to sustain the United States for a period of not less than 3 years in the event of a national emergency.".

(b) ESTABLISHMENT BY LAW.—Section 3 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98b) is amended to read as follows:

"DETERMINATION OF MATERIALS TO BE ACQUIRED

"SEC. 3. The materials that are strategic and critical materials for the purposes of this Act, and the quality and quantity of each such material to be acquired for the purposes of this Act and the form in which each such material shall be acquired and stored, shall be established by law. Such materials when acquired, together with the other materials described in section 4 of this Act, shall constitute and be collectively known as the National Defense Stockpile (hereinafter in this Act referred to as the 'stockpile').".

(c) INITIAL DETERMINATION.—Until otherwise provided by law, the determinations in effect under section 3(a) of the Strategic and Critical Materials Stock Piling Act on the date of the enactment of this Act shall remain in effect.

SEC. 2. STOCKPILE MANAGEMENT

The Strategic and Critical Materials Stock Piling Act is amended by adding at the end thereof the following new sections:

"DELEGATION TO SECRETARY OF DEFENSE

"SEC. 14. (a) The functions of the President under sections 6, 7, 10, and 11 of this Act may only be delegated to the Secretary of Defense.

"(b)(1) The Secretary may enter into an interagency agreement with the head of any other department or agency for the performance of such functions under such terms and conditions as may be specified in the agreement.

"(2) The Secretary shall reimburse the head of any such agency for expenses incurred by that agency in administration of functions relating to the stockpile assigned to that agency by the Secretary under such an interagency agreement.

"APPROPRIATIONS TO BE MADE TO DEPARTMENT OF DEFENSE

"SEC. 15. Appropriations for the operation of the National Defense Stockpile and for acquisitions through the stockpile Transaction Fund shall be made to the Department of Defense as part of appropriations for the military functions of the Department.".

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H.R. 3743—TO PROVIDE FOR THE ESTABLISHMENT BY LAW OF THE GOALS FOR THE NATIONAL DEFENSE STOCKPILE, AND FOR OTHER PURPOSES

House of Representatives,
Committee on Armed Services,
Seapower and Strategic and
Critical Materials Subcommittee,
Washington, DC, Thursday, February 27, 1986.

The subcommittee met, pursuant to call, at 9:06 a.m., in room 2216, Rayburn House Office Building, Hon. Charles E. Bennett, presiding.

Members present: Mr. Bennett, Mr. Sisisky, Mr. Ortiz, Mr. Bustamante, Mr. Spence, Mr. Bateman, and Mr. Blaz.

OPENING STATEMENT OF HON. CHARLES E. BENNETT, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS SUBCOMMITTEE

Mr. Bennett. We have before us today H.R. 3743 which would establish by law the goals for the national defense stockpile and transfer authority and responsibility for the management of the stockpile to the Secretary of Defense. I believe congressional action is required to prevent the President's advisors from crippling the national defense stockpile. I am sorry I have to say that.

The purpose of the national defense stockpile is to provide sufficient quantities of strategic and critical materials to sustain the United States for a period of not less than 3 years in the event of a national emergency.

The 96th Congress enacted the Strategic and Critical Materials Stockpiling Act of 1979. The intention of Congress in enacting this legislation was to establish a logical businesslike procedure for managing the stockpile by depositing proceeds from the sale of excess stockpile material into the national defense stockpile transaction fund, there to be used for the purchase of other strategic and critical materials to meet approved stockpile goals. The transaction fund was established specifically to prevent the practice of transferring the receipts of stockpile sales directly to the general fund of the Treasury instead of using the funds for the purchase of materials for the stockpile.

I was encouraged when President Reagan initiated the first stockpile purchase in some 20 years from funds available in the national defense stockpile transaction fund. Since 1981 the administration has purchased $367.5 million of stockpile material, including $137 million of bauxite, $119 million of cobalt, $29 million of titanium, $28 million of beryllium, and $24 million of nickel. During this same period the administration sold approximately $437 million of excess stockpile material, which included $200 million of tin, $86 million of diamonds, $78 million of tungsten, and $18 million of silver which provided funds for the purchase of more urgently needed materials, things that were really needed in the stockpile and in very short supply.

However, the President's 1987 annual materials plan proposes to dispose of $250 million of stockpile materials, including some of the same materials purchased before by the administration, and other materials such as chromium, manganese, and platinum. This seems particularly foolish since the United States is heavily import dependent on southern Africa for many of these materials.

The President's fiscal year 1987 budget also proposes significant cuts in the national defense stockpile by proposing the capital transfer of $870 million from the national defense stockpile transaction fund to the general fund of the Treasury, a clear violation of the language and purpose of the 1979 Stock Piling Act.

The National Security Council has recommended that stockpile goals be reduced from $16 billion, as recommended by Presidents Ford and Carter, to a meager $700 million. Has there been some radical change in our import dependence on critical materials since the President warned of our insecure mineral situation in his April 5, 1982, report, "National Materials and Minerals Program Plan and Report to Congress"? Are our sources of supply more secure than in 1982 when that was done?

In my opinion, southern Africa, in particular, is decidedly less secure. I must ask myself the question, Does the National Security Council really believe that our current stockpile goal of approximately $16 billion can be reduced to $700 million and still meet the massive requirements for material that will be needed in any future emergency? I am tempted to recount what happened in the Nixon years when they decided they were not going to have a 3- or 5-year war but were going to say it was all going to be over in 1 year. And then having said that then they said, well, we cannot get the stockpile into use in 1 year, so therefore we do not really need anything in the stockpile. A very arbitrary decision to cut back on the stockpile.

Common sense and previous testimony before this subcommittee leads me to believe that these recommendations currently before us are dead wrong. At my request, the General Accounting Office is currently conducting an indepth review of the National Security Council stockpile study. Unfortunately, the GAO is having difficulty in obtaining the cooperation of Federal agencies involved in that study. And that certainly is ridiculous and absurd, and certainly something that should not occur.

In this regard, I have sent a letter to Admiral Poindexter, the President's National Security Advisor, requesting NSC's cooperation in providing information requested by GAO. Otherwise, GAO will not be able to make this study and Congress really will not be properly informed.

The President's stockpile proposal has met stiff resistance in the Congress reflecting a serious disagreement between the executive and the legislative branches as to the appropriate size of the national defense stockpile to meet U.S. defense mobilization requirements in the event of a national emergency.

The debate about the size of the stockpile is not new, nor are the issues involved in stockpile goal determination. This debate has continued periodically during the past four decades. It is important to note that the most significant changes in stockpile goals in the past have resulted from changes in policymakers' stated perceptions about the strategic threat to the national security—the location, duration, and intensity of the possible national emergency. And when you study what they have presented to us you come to the almost inevitable conclusion that every time they try to bring down the stockpile they arrive at how much they want to get to balance the budget, or whatever it is, and then they rearrange their strategic assumption to fit it. That is exactly what they have been doing through the years.

In this regard, the administration's stockpile plans are dramatically inconsistent with our declared military doctrine. The President and I both believe we need military forces capable of fighting across the entire spectrum of potential conflict. The President made a very fine speech last night about it which I could not agree with more, the need for us having a strong national defense and that this is the primary responsibility of the Federal Government. A lot of things we have entrusted this Government with are not primary responsibilities, some are not responsibilities at all of the Federal Government.

That spectrum which I mentioned a moment ago about fighting across the entire spectrum, that includes lengthy conventional warfare, as well as possible escalation to nuclear war. If we cannot sustain conventional conflict, we are less likely to avoid a nuclear war. And we, of course, have constant reiteration of the fact that nobody can win a nuclear war.

The Defense Secretary's 1986 report notes, and I am quoting, "Because of the enormous military strength of the U.S.S.R., the United States cannot prepare only for a 'short war,' which would merely tempt an adversary to believe he could outlast us in combat." In essence, we should not pursue a short-term strategy against a long-term foe. An adequate stockpile bolsters our ability to sustain conventional conflict, speaks of our resolve. Improved conventional capability raises the nuclear threshold and enhances deterrence and, therefore, is a protection for our national defense.

Should we pass up a safe way to make war less likely, in favor of cosmetic deficit reduction? I understand that President Ford was provided with a range of options following his National Security Council review of stockpile goals. He decided in favor of a larger stockpile as added insurance in the event of a protracted conventional conflict, and concluded that a smaller stockpile would involve unacceptable risks to the national security. I wonder if President Reagan was actually given a realistic choice of stockpile options by the National Security Council staff? When they appeared before this committee I had a feeling that they were just doing a budgetary duty and it had very little to do with national defense—as much as I regret to say that.

Current events demonstrate that the economic policymakers of this administration are playing the same game that has occurred in other administrations, only worse; namely, using the stockpile for economic and budgetary purposes at the risk of national security. The 1979 Stock Piling Act specifically prohibits this kind of action by word, and I quote from the statute, "The purpose of the stockpile is to serve the interest of national defense only and is not to be used for economic or budgetary purposes."

Unfortunately, there are those within the administration who have disregarded the language of the 1979 act, the law of our country. In the spring of 1983 the three principal economic advisors to the President—OMB Director David Stockman, Treasury Secretary Donald Regan, and the Chairman of the Council of Economic Advisors, Martin Feldstein—recommended to the National Security Director, William P. Clark, that the National Security Council should conduct a review of stockpile goals. And I ask you, Are these the people in our Government charged with the responsibility for the national security of our Nation, or are they more concerned with the economic and budgetary policy?

Unfortunately, the stockpile has been tampered with by almost every administration since its creation. Top White House and budget officials seem unable to resist cashing in our Nation's raw materials insurance policy for short-term fiscal policy purposes. Yet, it is ironic that the most prodefense administration in recent memory is acting to strip further the ability to sustain long-term war production.

I have had the goals and the amounts of each material in the stockpile charted from 1944 to the present time. The charts look like they were the basis for the design of different types of roller coasters. These great fluctuations in stockpile goals over the years have generally resulted from closed-door reasoning of economists with more regard for budgetary needs than the national defense needs.

Now, I must say, when the people appear before our committee they also give us that impression. They do not really give us the impression they did this on the basis of any real defense study at all. They give us the impression they are doing it purely for budgetary and economic reasons.

Finally, the Office of Management and Budget has emasculated the Federal Emergency Management Agency capability to manage the stockpile by cutting its staff from 16 to only 2 staff personnel. I do not think anything in Washington can be done with two-staff personnel. I cannot think of something that could be done with two.

It is obvious to me that the President's economic policymakers have somehow sold the President on proposing drastic changes in stockpile goals. I believe the President has been ill served by his advisors.

Therefore, I introduced H.R. 3743, which has been cosponsored by the all of the members of this subcommittee. And any other members that want to join in cosponsoring the bill are open to do so.

H.R. 3743, among other things, provides that:

One, stockpile goals would be determined by law rather than administrative action;

Two, management of the stockpile would be delegated to the Secretary of Defense;

Three, appropriations for the operations and content of the national defense stockpile and appropriations from the national defense stockpile fund would be made to the Department of Defense.

I believe that we must bring out into the open, but not to the extent of jeopardizing national security, the processes for establishing goals for the stockpile. Congress now authorizes the number and kinds of airplanes, tanks, artillery tubes, and warships. Why should not Congress authorize the quantity and forms of basic strategic and critical materials needed by our industry to support our conventional fighting forces?

I remember when I was chairman of the building committee—What is the name of that committee Mr. Dellums has?

Mr. PRICE. It was known then as the Real Estate Subcommittee.

Mr. BENNETT. Real Estate. I used to be chairman of that subcommittee. And the proceedings of that subcommittee all used to be secret on the theory that the public should not know all those things. And I said I cannot see any reason at all why our discussion should not be public. And when we had it secret, actual scandals would occur with Members of Congress knowing what was going to happen and buying up property. I hate to say it but that is true.

And once we abolished the secrecy it was cleaned up. We have never had a problem with any scandal since.

And I think we should get away from that secrecy, get away from that mysterious feeling that somehow or other the public is not entitled to know. The public is entitled to know. And, therefore, I think that would be a definite shift for the benefit of the national defense of our country to have these things looked at in the open and we would have it discussed and we would come to logical conclusions about, what should be done.

I believe that the enactment of this legislation can provide the necessary "will" to begin a prudent restructuring of the national defense stockpile to provide the most critical materials in their most usable form in the event of a national emergency. Usable form is important, too, because sometimes we do procure things in forms that are not the most usable.

The record for these hearings will remain open until March 17, 1986, to permit any interested parties to submit statements if they wish to do so.

I want to welcome the distinguished witnesses appearing before the subcommittee today, all of whom are experts in their respective fields. And again I apologize for speaking so long, but as you know, we politicians like to make speeches.

Our first witness is the Honorable James A. McClure, chairman of the Committee on Energy and Natural Resources, U.S. Senate. I served with him here in the House, and he carries to the Senate the same wonderful service he gave to all of America when he was here in the House.

Thank you, Senator McClure for taking the time to give us your views on H.R. 3743 and anything else that you would like to add. And so at this time I will turn it over to you.

[Statement of Mr. Bennett follows:]

PREPARED STATEMENT OF HON. CHARLES E. BENNETT

The committee will come to order.

We have before us today H.R. 3743 which would establish by law the goals for the national defense stockpile and transfer authority and responsibility for the management of the stockpile to the Secretary of Defense. I believe congressional action is necessary to prevent the President's advisers from crippling the national defense stockpile.

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I was encouraged when President Reagan initiated the first stockpile purchase in some twenty years from funds available in the national defense stockpile transaction fund. Since 1981 the administration has purchased $367.5 million of stockpile material including $137 million of bauxite, $119 million of cobalt, $29 million of titanium, $28 million of beryllium and $24 million of nickel. During this same period the administration sold approximately $437 million of excess stockpile material which included $200 million of tin, $86 million of diamonds, $78 million of tungsten and $18 million of silver which provided funds for the purchase of more urgently needed materials.

However, the President's fiscal year 1987 annual materials plan proposes to dispose of $250 million of stockpile materials including some of the same materials purchased by the administration and other materials such as chromium, manganese and platinum. This seems particularly foolish since the United States is heavily import dependent on southern Africa for many of these materials.

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Common sense and previous testimony before this subcommittee leads me to believe that these recommendations are dead wrong. At my request, the General Accounting Office is currently conducting an indepth review of the National Security Council stockpile study. Unfortunately, GAO is having difficulty in obtaining the cooperation of Federal agencies involved in the NSC study. In this regard, I have sent a letter to Admiral Poindexter, the President's National Security Adviser, requesting NSC's cooperation in providing information requested by GAO.

The President's stockpile proposal has met stiff resistance in the Congress reflecting a serious disagreement between the executive and legislative branches as to the appropriate size of the national defense stockpile to meet U.S. defense mobilization requirements in the event of a national emergency. The debate about the size of the stockpile is not new, nor are the issues involved in stockpile goal determination. This debate has continued periodically during the past four decades. It is important to note that the most significant changes in stockpile goals in the past have resulted from changes in policymakers' stated perceptions about the strategic threat to the national security (the location, duration, and intensity of the possible national emergency).

In this regard, the administration's stockpile plans are dramatically inconsistent with our declared military doctrine. The President and I both believe we need military forces capable of fighting across the entire spectrum of potential conflict. That spectrum includes lengthy conventional warfare, as well as possible escalation to nuclear war. If we cannot sustain conventional conflict, we are less likely to avoid a nuclear war that no one can win.

The Defense Secretary's fiscal year 1986 report notes, "Because of the enormous military strength of the USSR, the United States cannot prepare only for a 'short war', which would merely tempt an adversary to believe he could outlast us in combat". In essence, we should not pursue a short-term strategy against a long-term foe. An adequate stockpile bolsters our ability to sustain conventional conflict. Improved conventional capability raises the nuclear threshold, and enhances deterrence. Should we pass up a safe way to make war less likely, in favor of cosmetic deficit reduction? I understand that President Ford was provided with a range of options following his National Security Council review of stockpile goals. He decided in favor of a larger stockpile as added insurance in the event of a protracted conventional conflict, and concluded that a smaller stockpile would involve unacceptable risks to the national security. I wonder if President Reagan was given a realistic choice of stockpile options by the National Security Council staff?

Current events demonstrate that the economic policymakers of this administration are playing the same game that has occurred in other administrations, namely, using the stockpile for economic and budgetary purposes at the risk of national security. The 1979 Stock Piling Act specifically prohibits this kind of action, and I quote "the purpose of the stockpile is to serve the interest of national defense only and is not to be used for economic or budgetary purposes."

Unfortunately, there are those within this administration who have disregarded the congressional direction included in the 1979 act. In the spring of 1983 the three principal economic advisors to the President: OMB Director, David Stockman; Treasury Secretary Donald Regan; and the Chairman of the Council of Economic Advisors, Martin Feldstein, recommended to the National Security Director, William P. Clark, that the National Security Council should conduct a review of stockpile goals. I ask you, are these the people in our Government charged with the responsibility for the national security of our Nation, or are they more concerned with economic and budget policy? Unfortunately, the stockpile has been tampered with by almost every administration since its creation. Top White House and budget officials seem unable to resist cashing in our Nation's raw materials insurance policy for short-term fiscal policy purposes. Yet, it is ironic that the most pro-defense administration in recent memory is acting to strip us further of the ability to sustain long-term war production.

I have had the goals and the amounts of each material in the stockpile charted from 1944 to present. The charts look like they were the basis for the design of different types of roller coasters. These great fluctuations in stockpile goals over the years have generally resulted from closed door reasoning of economists with more regard for budgetary needs than national defense needs.

Finally, the Office of Management and Budget has emasculated the Federal Emergency Management Agency capability to manage the stockpile by cutting its staff from 16 to only 2 staff personnel.

It is obvious to me that the President's economic policymakers have somehow sold the President on proposing drastic changes in stockpile goals. I believe the President has been ill served by his advisors.

Therefore, I introduced H.R. 3743 which has been cosponsored by the majority of the members of this subcommittee. H.R. 3743, among other things, provides that:

(1) Stockpile goals would be determined by law rather than by administrative action;

(2) Management of the stockpile would be delegated to the Secretary of Defense;

(3) Appropriations for the operations and content of the national defense stockpile and appropriations from the national defense stockpile transaction fund would be made to the Department of Defense.

I believe that we must bring out into the open, but not to the extent to jeopardize national security, the processes for establishing goals for the stockpile. Congress now authorizes the number and kinds of airplanes, tanks, artillery tubes and warships. Why shouldn't Congress authorize the quantities and forms of basic strategic and critical materials needed by our industry to support our conventional fighting forces?

I believe that the enactment of this legislation can provide the necessary "will" to begin a prudent restructuring of the national defense stockpile to provide the most critical materials in their most usable form in the event of a national emergency.

The record for these hearings will remain open until March 17, 1986 to permit interested parties to submit statements if they wish to do so.

I want to welcome the distinguished witnesses appearing before the subcommittee today, all of whom are experts in their respective fields of endeavor.

Our first witness is the Honorable James A. McClure, Chairman of the Committee on Energy and Natural Resources, United States Senate. Thank you Senator McClure for taking the time to give us your views on H.R. 3743.

STATEMENT OF HON. JAMES A. McCLURE, A SENATOR FROM IDAHO, CHAIRMAN, COMMITTEE ON ENERGY AND NATURAL RESOURCES

Senator McClure. Thank you very much, Mr. Chairman.

And there are times when you are tempted simply to say "Amen" and let it go at that, because I agree with everything that you have said.

It is a pleasure for me to testify here today on the bill that is pending before the subcommittee. I also want to reiterate my thanks to you, Mr. Chairman, for appearing before my committee on November 14, 1985, to present your views on the President's July 8 national defense stockpile modernization proposal and to announce the introduction of the legislation that is the subject of the hearing today.

Before addressing the specifics of your bill this morning, I would like to make a few observations regarding the national defense stockpile.

I think you and I both know that the rationale for establishing a national defense stockpile is as valid today as it was in 1939 when it was established by Congress. However, the history of the stockpile since that time is replete with examples of manipulation by previous administrations for a variety of reasons—partisan politics, supporting foreign policy objectives, stabilizing prices, reducing deficits, fighting inflation, you name it, there have been all kinds of reasons—unrelated to the stated purpose of the 1939 act.

This purpose has been restated even as recently as the Strategic and Critical Materials Stock Piling Revision Act of 1979, as amended. Yet, we find the acquisition of stocks of strategic and critical materials for the national defense stockpile has over the past four decades fluctuated like a roller coaster. Have these fluctuations resulted from advancing defense technologies or changing patterns in domestic consumption or even geopolitical consequences of instability in such areas as South Africa, Angola, Zaire, Zimbabwe, and so forth?

Perhaps in part, but most of these fluctuations have been generated for purely economic and budgetary reasons. If I am wrong, then I would like someone to explain to me why, for example, we had an established stockpile goal for lead in November 1944 of 1,100,000 short tons but in June 1963 that goal was zeroed-out, and in May 1980 the goal was reestablished at 1,100,000 short tons. The mineral zinc was likewise affected in the same timeframe.

There are numerous other examples because stockpile goals have fluctuated, as you indicated, like a roller coaster. And it would be a very sharp ride, indeed, if you tried to follow it.

Mr. Chairman, there is yet another observation I would like to make regarding efforts to manipulate the stockpile. There is a disturbing similarity with respect to actions being proposed by this administration and those proposed by the Nixon administration. As you may recall, President Nixon announced in a press release in

April 1973 that the one weapon that he had not used in the "fight against rising prices" was the strategic stockpile.

He further stated that while the then-existing stockpile would be substantially reduced; that is, from a 3-year war scenario to a 1-year war scenario; it would continue to contain "critical materials that we need in quantities fully adequate for our national security requirements." Under President Nixon's proposal, changes in stockpile objectives would result in reducing the stockpile from a value of $4.8 billion to $700 million.

Also, the General Accounting Office in its report to Congress on March 11, 1975, said, with respect to President Nixon's assumptions:

> We could not obtain definitive explanations as to how and why those more optimistic assumptions came to be other than the National Security Council directed them.

And, finally, Mr. Chairman, GAO suggested that

> Until the Nation's critical resource requirements are clarified, the Congress may wish to consider halting future disposals currently authorized under specific legislation and grant no further requests to dispose of strategic and critical materials.

While the GAO has not completed its review of the President's July 8 proposal as requested by you and me, Mr. Chairman, the suggestion GAO made in 1975 has already been accomplished by my amendment to the 1985 Supplemental Appropriations Act. Based upon recent feedback from GAO, I would not be a bit surprised if we hear the same statement in 1986 they made in 1975. If that turns out to be the case, then indeed my amendment was timely and necessary.

Mr. Chairman, I believe that you and I are in agreement that something must be done to prevent the "bean counters" in the Office of Management and Budget, no matter what political party is in the White House, from using the national defense stockpile as a budget tool for purposes other than national defense. Thanks to your legislative efforts over the years, Mr. Chairman, many of the loopholes in the stockpile statute have been closed.

H.R. 3743 attempts to tighten the statute even further by placing Congress in the role of an active participant in determining the quality, quantity, and form of strategic and critical materials to be acquired for the national defense stockpile and by requiring the President to delegate his stockpile functions to the Secretary of Defense.

I support the concepts embodied in your bill, Mr. Chairman, but I would like to take this opportunity to recommend a few modifications to your bill that I believe will achieve what we both want in the final analysis.

As you know, I have introduced legislation over the past several years in an attempt to bring stability to our past chaotic stockpile policies. I have reintroduced that legislation this week in hopes that its provisions might be later incorporated into your bill. I solicit your support and assistance in achieving that end.

With your indulgence, Mr. Chairman, I would like to briefly describe the provisions of my bill, a copy of which is attached to my statement.

First, my bill prescribes a new method for determining the quantity of any material to be stockpiled under the Strategic and Critical Materials Stock Piling Act. As evidenced by the President's July 8 national defense stockpile modernization proposal, we have not solved the problem of violent fluctuations in stockpile goals. Clearly, there has been no simple formula used for determining stockpile goals and certainly no consistency. My bill will bring us one step closer to a more simplistic and consistent method for determining stockpile goals as well as involving Congress in that determination.

My bill provides that the executive branch should continue to designate the materials that are needed for the stockpile. But, the bill recognizes that an order of priority exists with respect to the quantity of each material stockpiled and that fundamental to that priority is the dependency and potential vulnerability this Nation has on imports to meet raw material demands.

The United States is obviously most vulnerable to supply difficulties with respect to commodities which it does not produce in any significant quantities. In my bill, these materials are designated as "Class A." Those commodities which represent materials of which the United States has some production but is unlikely to achieve self-sufficiency, even with severe rationing or substitution, are classifed as "Class B." Finally, those commodities which the United States produces in substantial quantities but for which it has some import dependence are designated as "Class C."

The importance of these designations is that the goals would rely on our foreign dependency. For commodities in class A the goal would be equal to a 3-year supply of a 5-year average of net imports. For class B the goal would be a 2-year supply, and for class C the goal would be a 1-year supply.

The executive branch, through the leadership of the Secretary of Defense, is authorized to designate the classification of individual commodities under the terms of the bill, and in doing so will be expected to calculate average annual U.S. net imports of each. These calculations will be based on the calendar years immediately preceding and the calculations will be made at least once in each Presidential term.

When the stockpile acquisitions are taking place, imports will tend to rise and, subsequently, when stockpile liquidations are taking place, imports will tend to fall. Therefore, in calculating net imports, the bill requires that shipments from Government stockpile excesses be added to arrive at figures not influenced by stockpile activities.

The bill further recognizes that in some special cases the formula outlined may not yield a result in line with the statutory requirement that the stockpile contain sufficient quantities to sustain the United States for a period of not less than 3 years in the event of a national emergency. It is not the intention of the bill to change the not-less-than-3-year requirement in the event of a national emergency. There is a provision in the bill which allows the Secretary of Defense, working with other agencies of the executive branch, to propose a different goal. However, those involved in proposing a different goal must come to Congress and explain the deposed—proposed departure. Congress would have 90 days to consider the reasons for the proposed goal and would, therefore, become more directly involved in the setting of such goals—an objective consistent with that contained in your bill, Mr. Chairman.

Due to the subjective nature of determining the material needs in a national emergency, congressional oversight will help to eliminate the use of the national defense stockpile for budgetary purposes.

Mr. Chairman, the following tabulation compares the quantities for certain key materials which are involved in the Stockpile Program under two alternatives. The first alternative is the program of the Federal Emergency Management Agency in 1984, and the second alternative is embodied in the legislative proposal I have introduced.

To explain the rights of the executive branch that I previously mentioned, I would like to concentrate for a moment on the commodity, cobalt. Under the FEMA alternative, the stockpile goal for October 1984 is 85,400,000 pounds. Under my alternative, the goal is 43,382,000 pounds.

If the executive branch determines that the 43,382,000 pounds is not a sufficient quantity for the United States in a national emergency, it must justify its reasons to the Congress. It would be the responsibility of the executive branch to present its reasons for why the goal derived from the import formula does not yield a proper result. It will then not only be the responsibility of the Congress to review the goal and the executive branch's reasons for proposing a change, but it will be the Congress which approves or disapproves such a proposed change and, finally, the quality and quantity for each material in the stockpile as well.

Mr. Chairman, I believe that an interagency advisory committee, chaired by the Secretary of Defense, to determine which materials are to be acquired for the national defense stockpile and the quantities of such materials determined by my formula will achieve the goals that we both share.

Mr. Chairman, and members of the subcommittee, I want to thank you again for inviting me to appear before you today. And I look forward to working with you in the coming months in legislating to resolve this very important matter.

And I might just conclude, Mr. Chairman, I really believe, if your committee and mine can come to a meeting of the minds of what should be done, we will accomplish it. And I do not think our objectives are widely divergent.

If I could summarize, I understand you to want the Congress to set the goals. And I do not disagree that that would be superior to what we are doing now and have for several years. But it seems to me if we can set a base around which that decision is made by a formula which is totally objective and then vary from that base by calculated reason and decision, advised by the executive branch and determined by the Congress, that might meld both approaches into something that this Nation would be well served by.

[Statement of Senator McClure follows:]

PREPARED STATEMENT OF HON. JAMES A. MCCLURE

Mr. Chairman and Members of the Subcommittee:

It is a pleasure for me to testify before you on H.R. 3743, a bill to provide for the establishment of National Defense Stockpile goals as introduced by the distinguished Chairman of this Subcommittee. I also want to reiterate my thanks to you, Mr. Chairman, for appearing before my Committee on November 14, 1985 to present your views on the President's July 8th National Defense Stockpile "Modernization" proposal and to announce the introduction of the legislation that is the subject of today's hearing.

Before addressing the specifics of your bill this morning, I would like to make a few observations regarding the National Defense Stockpile.

Mr. Chairman, I find that the rationale for establishing a National Defense Stockpile is as valid today as it was in 1939 when it was established by Congress. However, the history of the stockpile since that time is replete with examples of manipulation by previous Administrations for a variety of reasons (e.g. partisan politics, supporting foreign policy objectives, stabilizing prices, reducing deficits, fighting inflation, etc.) unrelated to the stated purpose of the 1939 Act. That stated purpose, as you know Mr. Chairman, was:

> "...to provide for the common defense by acquiring stocks of strategic and critical materials essential to the needs of industry for the manufacture of supplies for the armed forces and the civilian population in time of a national emergency, and to encourage, as far as possible, the further development of strategic and critical materials within the United States for common defense."

This purpose has been restated even as recently as the "Strategic and Critical Materials Stock Piling Revision Act of 1979", as amended. Yet, we find that the acquisiton of stocks of strategic and critical materials for the National Defense Stockpile has over the past four decades fluctuated like a roller coaster. Have these fluctuations resulted from advancing defense technologies or changing patterns in domestic consumption or even geopolitical consequences of instability in such areas as South Africa, Angola, Zaire, Zimbabwe, and so forth? Perhaps in part, but most of these fluctuations have been generated for purely economic and budgetary reasons. If I am wrong, then I would like for someone to explain to me why, for example, we had an established stockpile goal for lead in November of 1944 of 1,100,000 short tons but in June of 1963 that goal was zeroed-out and in May of 1980 the goal was reestablished at 1,100,000 short tons. The mineral zinc was likewise affected in the same time-frame.

While there are numerous examples of other stockpile commodities whose goals have fluctuated over this time period as well, suffice it to say, I hope I have made my point.

Mr. Chairman, there is yet another observation I would like to make regarding efforts to manipulate the stockpile. There is a disturbing similarity with respect to actions being proposed by this Administration and those proposed by the Nixon Administration. As you may recall, President Nixon announced in a press release in April of 1973 that the one weapon that he had not used in the "fight against rising prices" was the strategic stockpile. He further stated that while the then existing stockpile would be substantially reduced (i.e. from a three-year war scenario to a one-year war scenario), it would continue to contain "critical materials that we need in quantities fully adequate for our national security requirements." Under President Nixon's proposal, changes in stockpile objectives would result in reducing the stockpile from a value of $4.8 billion to $700 million. Also, the General Accounting Office (GAO) in its report to Congress on March 11, 1975 said, with respect to President Nixon's assumptions: "We could not obtain definitive explanations as to how and why those more optimistic assumptions came to be other than the National Security Council directed them." Finally, Mr. Chairman, GAO suggested that "until the Nation's critical resource requirements are clarified, the Congress may wish to consider halting future disposals currently authorized under specific legislation and grant no further requests to dispose of strategic and critical materials." While the GAO has not completed its review of the President's July 8th proposal as requested by you and I Mr. Chairman, the suggestion GAO made in 1975 has already been accomplished by my amendment to the 1985 Supplemental Appropriations Act (P.L. 99-88). Based upon recent feedback from GAO, I would not be a bit surprised if we hear the same statement in 1986 that they made in 1975. If that turns out to be the case, then my amendment was indeed timely and necessary.

Mr. Chairman, I believe that you and I are in agreement that something must be done to prevent the "bean counters" in the Office of Management and Budget (OMB), no matter what political party is in the White House, from using the National Defense Stockpile as a budget tool for purposes other than national defense. Thanks to your legislative efforts over the years Mr. Chairman, many of the loopholes in the stockpile statute have been closed. H.R. 3743 attempts to tighten the statute even further by placing Congress in the role of an active participant in determining the quality, quantity, and form of strategic and critical materials to be acquired for the National Defense Stockpile and by requiring the President to delegate his stockpile functions to the Secretary of Defense.

While I support the concepts embodied in your bill Mr. Chairman, I would like to take this opportunity to recommend a few modificatins to your bill that I believe will achieve what we both want in the final analysis.

As you know Mr. Chairman, I have introduced legislation over the past several years in an attempt to bring stability to our past chaotic stockpile policies. I have reintroduced that legislation this week in hopes that its provisions might be later incorporated into your bill, H.R. 3743. I solicit your support and assistance in achieving that end. With your indulgence Mr. Chairman, I would like to briefly describe the provisions of my bill, a copy of which is attached to my statement.

First, my bill prescribes a new method for determining the quantity of any material to be stockpiled under the Strategic and Critical Materials Stock Piling Act. As evidenced by the President's July 8th National Defense Stockpile "Modernization" proposal, we have not solved the problem of violent fluctuations in stockpile goals. Clearly there has been no simple formula used for determining stockpile goals and certainly no consistency. My bill will bring us one step closer to a more simplistic and consistent method for determining stockpile goals as well as involving Congress in that determination. My bill provides that the Executive Branch should continue to designate the materials that are needed for the stockpile. But, the bill recognizes that an order of priority exists with respect to the quantity of each material stockpiled and that fundamental to that priority is the dependency and potential vulnerability this Nation has on imports to meet raw material needs.

The United States is obviously most vulnerable to supply difficulties with respect to commodities which it does not produce in any significant quantities. In my bill, these materials are designated as "Class A." Those commodities which represent materials of which the United States has some production but is unlikely to achieve self-sufficiency, even with severe rationing or substition are classified as "Class B." Finally, those commodities which the U.S. produces in substantial quantities but for which it has some import dependence are designated as "Class C." The importance of these designations is that the goals would rely on our foreign dependency. For commodities in "Class A", the goal would be equal to a 3-year supply of a 5-year average of net imports. For "Class B", the goal would be a 2-year supply and for "Class C", the goal would be a 1-year supply.

The Executive Branch, through the leadership of the Secretary of Defense, is authorized to designate the classification of individual commodities under the terms of the bill and in doing so will be expected to calculate average annual U.S. net imports of each. These calculations will be based on the calendar years immediately preceding and the calculations will be made at least once in each presidential term.

When the stockpile acquisitions are taking place, imports will tend to rise and subsequently, when stockpile liquidations are taking place, imports will tend to fall. Therefore, in calculating net imports, the bill requires that shipments from government stockpile excesses be added to arrive at figures not influenced by stockpile activities.

The bill further recognizes that in some special cases the formula outlined may not yield a result in line with the statutory requirement that the stockpile contain sufficient quantities to sustain the U.S. for a period of not less than three years in the event of a national emergency. It is not the intention of the bill to change the not less than 3 year requirement in event of a national emergency. There is a provision in the bill which allows the Secretary of Defense working with other agencies of the Executive Branch to propose a different goal.

However, those involved in proposing a different goal must come to Congress and explain the proposed departure. Congress would have 90 days to consider the reasons for the proposed goal and would, therefore, become more directly involved in the setting of such goals -- an objective consistent with that contained in your bill Mr. Chairman. Due to the subjective nature of determining the material needs in a national emergency, congressional oversight will help to eliminate the use of the National Defense Stockpile for budgetary purposes.

Mr. Chairman, the following tabulation compares the quantities for certain key materials which are involved in the stockpile program under two alternatives. The first alternative is the program of the Federal Emergency Management Agency (FEMA) in 1984 and the second alternative is embodied in the legislative proposal I have introduced.

STRATEGIC STOCKPILE
PRESENT STOCKPILE GOALS, HOLDINGS AND McCLURE OBJECTIVES
(figures in thousands)

COMMODITY	CLASS	1984 FEMA GOAL	OCTOBER 1984 HOLDINGS	McCLURE LEGISLATIVE GOAL	McCLU DEFICIE OR SURP
Aluminum (short tons)	C	7,150	4,279	367	+3,19
Antimony (short tons)	B	36	38	34	+4
Cobalt (pounds)	A	85,400	46,194	43,382	+2,18
Copper (metric tons)	C	1,000	29	203	- 174
Lead (short tons)	C	1,100	601	74	+ 52
Nickel (short tons)	A	200	32	261	- 22
Tin (metric tons)	A	42	186	118	+ 6

To explain the rights of the Executive Branch that I previously mentioned, I would like to concentrate for a moment on the commodity, cobalt. Under the FEMA alternative, the stockpile goal for October 1984 is 85,400,000 pounds. Under my alternative, the goal is 43,382,000 pounds. If the Executive Branch determines that the 43,382,000 pounds is not a sufficient quantity for the U.S. in a national emergency, it must justify its reasons to Congress. It would be the responsibility of the Executive Branch to present its reasons for why the goal derived from the import formula does not yield a proper result. It will then not only be the responsibility of the Congress to review the goal and the Executive Branch's reasons for proposing a change, but it will be the Congress which approves or disapproves such a proposed change and finally the quality and quantity for each material in the stockpile as well.

Mr. Chairman, I believe that an interagency advisory committee, chaired by the Secrertary of Defense, to determine which materials are to be acquired for the National Defense Stockpile and the quantities of such materials determined by my formula will achieve the goals that we both share.

Mr. Chairman, and Members of this Subcommittee, I want to thank you again for inviting me to appear before you today and I look forward to working with you in the coming months in legislating a resolve to this very important matter.

99th CONGRESS
2nd SESSION

S. ______

[illegible]

IN THE SENATE OF THE UNITED STATES

Mr. McClure

introduced the following bill; which was read twice and referred to the Committee on ______

A BILL

To amend the Strategic and Critical Materials Stock Piling Revision Act of 1979 in order to prescribe the method for determining the quantity of any material to be stockpiled under such Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That this Act may be cited as the "Strategic and Critical Materials Stock Piling Revision Act of 1986".

SEC. 2. (a) Section 2(a) of the Strategic and Critical Materials Stock Piling Revision Act of 1979 (50 U.S.C. 98a(a)) is amended by adding at the end thereof the following: "To effectuate this policy determinations shall be made from time to time, as provided in this section, regarding which materials are strategic and critical to the United States and the quantities of such materials that should be stockpiled under this Act.".

(b) Section 2 of such Act is further amended by redesignating subsection (b) as subsection (c) and adding after subsection (a), as amended by subsection (a) of this section, a new subsection (b) to read as follows:

"(b)(1) The President shall appoint an interagency advisory committee chaired by the Secretary of Defense and composed of representatives from appropriate departments and agencies of the Government to determine which materials are to be acquired under this Act and what classification such materials shall be assigned under paragraph (2).

"(2) Materials selected to be stockpiled under this Act shall be classified by the interagency advisory committee provided for in paragraph (1) as being one of the three classes prescribed below, as appropriate:

> "(A) Class A materials are those materials not produced in the United States or produced in the United States in limited quantities, that are necessary for the security of the United States, are essential to the economy of the United States, and are primarily obtained from foreign sources.

"(B) Class B materials are those materials produced in the United States but are not available in sufficient quantities in the United States to offer the potential for meeting total domestic needs, are necessary to the security of the United States, are essential to the economy of the United States, and are obtained to a substantial extent from foreign sources.

"(C) Class C materials are those materials produced in substantial quantities in the United States, are available in sufficient quantities to meet total domestic requirements, are necessary to the security of the United States, are essential to the economy of the United States, and are obtained to a lesser extent from foreign sources.

"(3) The quantity of any material to be acquired under this Act (stockpile goal) shall be determined as follows:

"(A) the stockpile goal for any material designated as a class A material shall be a quantity equal to three years' domestic net imports of such material.

"(B) the stockpile goal for any material designated as a class B material shall be a quantity equal to two years' domestic net imports of such material.

"(C) the stockpile goal for any material designated as a class C material shall be a quantity equal to one year's net imports of such material.

"(4) Subject to appropriate adjustments under paragraph (5), a year's domestic net imports of any material for purposes of clause (A), (B), or (C) of paragraph (3) shall be a quantity of the material equal to the average annual imports of such material during the five calendar years immediately preceding the calendar year in which the determination for the stockpile goal is being made (base period), plus the average annual shipments from Government stockpile excesses ~~sales or minus the average annual purchases~~ of such material made from the stockpile during such five-year base period, reduced by the average annual exports of such material during such five-year base period.

"(5) In determining the quantity under paragraph (4) of any material to be acquired for the stockpile appropriate adjustment shall be made in the computations made under such paragraph in the case of any material which is acquired in both its crude form and in its refined or processed form so as to avoid duplicate calculations with respect to the same material.

"(6) The stockpile goal for any material acquired for the stockpile under this Act shall be reviewed once every four years by the interagency advisory committee referred to in paragraph (1). A revised objective for such material shall be established only if the average annual quantity of imports of such material during the five calendar years immediately preceding the current calendar year increased or decreased by more than 10 per centum of the average annual quantity of such material at the time of the preceding mandatory review under this paragraph.

"(7) Nothing in paragraph (6) shall be construed to prohibit the Secretary of Defense ~~head of the agency~~ and the interagency advisory committee referred to in paragraph (2) from conducting a review of the stockpile goal for any material at any time other than that prescribed by paragraph (6); but in any case in which such committee determines that the stockpile goal for any material should be computed in a manner other than that prescribed in paragraph (3), the Secretary of Defense ~~head of the agency~~ shall notify the Congress in writing of that determination and set forth the proposed new formula for computing the stockpile goal for such material. The new formula shall become effective with respect to such material ~~unless~~ within a period of ninety days after the day on which the Congress was notified by the Secretary of Defense." ~~head of the agency. either House of the Congress agrees to a resolution disapproving such formula."~~.

Mr. **Bennett**. We thank you very much. And I should note that no one from the administration was available to testify before us this morning. I would like the record to show that we invited the Secretary of Defense, Secretary of the Interior, Secretary of Commerce, and the President's National Security Adviser. They have not sent anybody to testify. They undoubtedly will submit a report in some way on the bill.

Now, if you can start the machine running somebody. What happened to Larry? Well, it is all right. I guess we will not have it at the start. It does not make any difference. When he gets here he can turn it on.

We do have a machine that cuts us down on time so we will not occupy too much time.

I would like to say that I appreciate very much your having come here. And, of course, you worked with me with regard to the bill which I have introduced on the House side.

Senator **McClure**. Yes.

Mr. **Bennett**. And I am not really necessarily asking you to respond to any of these things, but I do want to tell you some concerns or feelings that I have.

I have the feeling that the bill that you now have introduced, and of course it is shown by the record to have been something that is a half a decade old. In this particular area we have enacted legislation that makes things a little better, but we finally came, you and I came to the conclusion as just man and man talking about the matter that we might as well place the determination of stockpile goals in the hands of Congress. There is nothing wrong about it. And why not do it? They are doing a bad job in the administration so why should we not do a good job ourselves.

And that is a difference between the bill that I have introduced and the bill you have introduced. Yours is a little bit lost in history because, the one that you and I have both introduced on both sides now, the one that is actively before us today, is one that just says, well, that was a good effort in the direction but this is really going to grasp it in the hands of Congress. And I would like to have you think about that.

Now, there——

Senator **McClure**. May I respond to that? I would be happy to.

Mr. **Bennett**. You can respond. I am not trying to put you on the spot.

Senator **McClure**. All right. No, that is fine.

Mr. **Bennett**. Because I think meeting privately we can do better. But you can respond if you want to. I do not want you getting locked into something you cannot back away from.

Senator **McClure**. I understand that, Mr. Chairman. And it may well be that the Congress is ready to simply set each one of the individual materials stockpile goals, but I do believe that you—we could even graft that over the stockpile goals established in my bill without interference. And one becomes a guideline for the determination of the other.

Mr. **Bennett**. Well, let me say I am not locked in cement on this. And I do not think we ought to try to really get an agreement here.

Senator **McClure**. No.

Mr. BENNETT. I think this is not the way to do that. But I do want to express just frankly——

Senator McCLURE. Surely.

Mr. BENNETT [continuing]. A concern.

Another concern is you have got a committee that by its language in that bill, which I consider to be a dated bill now, which is called an advisory committee but actually, it fixes things, it determines things. And I want Congress to determine things.

Senator McCLURE. Well, that could be easily melded.

Mr. BENNETT. Yes, sir; very few words could meld that. They could just say it is an advisory committee that just advises——

Senator McCLURE. That is right.

Mr. BENNETT [continuing]. Instead of making decisions.

Senator McCLURE. Yes.

Mr. BENNETT. It is called an advisory committee but it actually makes decisions in your bill.

And then the next thing—I do not know that you need to respond to all these things that we are saying now, because I do not want you to get locked in the cement where we cannot talk.

Senator McCLURE. We will talk.

Mr. BENNETT. So you do not have to respond.

But another thing, I will tell you another thing which I am willing to adjust on these things, I am not locked in cement either, but you do set out statistical things about saying 40 percent here or 70 percent there. You realize this is going to inconvenience the passage of law rather than assist the passage of law.

I have been very much involved in these kinds of transactions. And there are times when something becomes available because the market is very low at a particular time. It can help the local economy—you are not supposed to do this for that purpose—but it can incidentally help local economy by acquiring for the stockpile this type of stuff.

It all makes money. None of this is a loss.

Senator McCLURE. Right.

Mr. BENNETT. All of this stuff is adding to the assets of the U.S. Government.

I do not think that there is anything that we have voluntarily bought for the stockpile that has not gone up. There are things that we inherited because of foreign affairs and things like that, like flax and the like that we did not want to begin with.

Senator McCLURE. Mr. Chairman, our history, though, has been to buy high and sell low.

Mr. BENNETT. Well, that is all the more reason why we should have a new group of people doing it; namely, the Congress itself. But we will not do it. We will not do it that way. If we do not, we will not get reelected if we do not do it right, because it will be an issue in our campaigns. In other words, if we do a job, a bad job of establishing goals we will have to face that at the hustings. And right now nobody faces. Nobody knows who it is that establishes the goals. There is no way you can identify the people. And, actually, they are not, they are not people who are handling stockpiles at all, they are people who are handling budgets. They are budgetary people that handle this matter, they are not people who are really doing it in the actual sense.

Senator **McClure**. I agree with that totally.

Mr. **Bennett**. So, those were things that were concerns I had about your bill.

And the red light has come on now.

All right, next person can inquire. And that will be who? Mr. Spence.

Mr. **Spence**. Senator, it is a real pleasure to have you with us this morning.

I noted your modifications list in these priorities and so forth, and I was just wondering, on page 8 where you give an example of cobalt and you said if the executive branch determines that the amount you propose was not sufficient then they could come back and present the reasons to Congress and Congress would still have the responsibility of reviewing the goal and the reasons and so forth and approving or disapproving. The mechanism of that would be what? Just filing a report with us and the committee?

Senator **McClure**. Yes; the gentleman is correct. It is a congressional decision based upon whatever advice they might give. And while the one that I gave was a stockpile goal that under the formula in the bill would be lower than the current stockpile goal, we could probably find one in which the current inventory is higher than that formula, and they would come to us and say your formula has too high a goal and should be reduced.

But it would leave the decision on every commodity within the purview of the Congress.

Mr. **Spence**. They would have a chance to present testimony, I guess, and this kind of thing——

Senator **McClure**. Yes.

Mr. **Spence** [continuing]. Before a hearing like we have right now when they propose the, well——

Senator **McClure**. Yes.

Mr. **Spence** [continuing]. Propose a defense bill or something.

That is all I have, Mr. Chairman.

Mr. **Bennett**. Mr. Sisisky.

Mr. **Sisisky**. Thank you very much, Mr. Chairman.

Senator McClure, thank you so much for being here. You brought wonderful testimony; even I could understand it. That is on a subject——

Senator **McClure**. There are a few of us in the Senate.

Mr. **Sisisky**. And I just have one little question. I will bet that you can make a deal with the chairman. He is acting a little crusty this morning, but I guarantee you he is pretty good to deal with.

Senator **McClure**. Getting ready to deal.

Mr. **Sisisky**. As long as he gets his way. I found that out in 3 years of working with him.

But just a simple question. I like the way you have divided the classes up, class A, B, and C. It certainly makes sense in doing that. And did you put a price tag of what it would be now, is there any price tag, just to get a feel of what we are really talking about here?

Senator **McClure**. No; I have not. I have not made that calculation. And I tell you, one of the reasons why I have not done it—and I do not blame you for asking the question—but one of the reasons

I have not done it, I want it clearly to be established that the stockpile goals are not driven by budgetary considerations.

Mr. Sisisky. I can understand that. And it is a nice——

Senator McClure. Because the chart behind us—Oh, I understand, but inevitably somebody will make the calculation and they will put a dollar figure on it. And they will do that by commodity, to see what it does to each commodity.

But sometime we have to get away from budgetary considerations in determining what our stockpile goals should be. That is why the chart behind me here shows such tremendous variations. If you look at it commodity by commodity it is even worse.

Mr. Sisisky. Well, thank you very much.

Mr. Bennett. Mr. Bustamante.

Mr. Bustamante. I just have an observation, Senator, in reference to, you know, the arguments that they use against—or those arguments that are used to reduce the stockpile, that we can always acquire these critical materials from some of our neighbors to the north and to the south. But one of the things that we always look at is reliability. And my biggest concern is, suppose these neighbors in the future decide that they do not want to deal with us, especially Mexico. We place such an important, you know, importance on our relationships with Mexico and the fact that Mexico has many of these critical materials. Suppose Mexico is not our friend?

Senator McClure. I think in the event of an all-out war they would probably align themselves with us, under current conditions. But I am not certain that those current conditions will remain. That is one of our concerns right now.

I think the same thing is true with our friends to the north in Canada.

But in times of limited conflict that we have experienced in the past we have seen where they have sharply diverged from us in matters of policy.

Mr. Bustamante. They have not been with us. And this is my concern in case they are not.

Senator McClure. So, my formula does not attempt to assign reliability based upon proximity. Although, I certainly think stockpile goals as reflected in recommendations from the administration have attempted to do so.

Mr. Bustamante. Yes.

Senator McClure. I agree with you.

Mr. Bennett. Mr. Bateman.

Mr. Bateman. Thank you, Mr. Chairman. And thank you, Senator, for sharing your views with us today, I found them very, very interesting.

Let me preface any questions, Mr. Chairman, with a comment. I suspect that I may be one of the very few members, if not the only member, of your subcommittee who is not a cosponsor of your bill.

Senator McClure. If that is true I suspect he has noticed it.

Mr. Bateman. Well, if he is as astute as I think he is I am confident that is the case. I did not think I was giving away any secrets.

I would like to explain why I am not presently a sponsor of the bill, because I completely endorse the objectives that you are seeking. The charts, the other materials that I have seen indicate that we have a ridiculous mess in our strategic stockpiling in the implementation of any rational policy. I think we have got to have one.

My concern in terms of not being a cosponsor on the bill yet has been whether or not that would signify that I was entirely satisfied with the methodology of the bill. To me it is a problem of methodology, not what the objective is.

I think Senator McClure has given to us some alternatives that deserve exploration.

My principal concerns are how do we implement a system by which the Congress maintains a very close oversight to see that the Nation's security is protected in this area without perhaps the Congress undertaking to do things that I do not think the Congress does very well, and is unlikely to be able to do very well on a continuing basis.

I look forward to the discussions between my chairman and the Senator. And my guess is that I am going to find a bill that I can support very, very enthusiastically.

And with the caveats I have expressed would like to say to the chairman that my name will appear on his bill, he now having had this opportunity to hear from me as to why I am not already on it. I think these problems are manageable, that we will find the methodology. And I think it is a matter of paramount importance to the security of the United States that we find these answers. What we have done in the past is, I think, patently absurd. I think the recommendations of the administration make no sense in terms of national objectives. And the Congress is going to have to come to grips with it.

The question to me is how does Congress, given the peculiarities of this institution, best do it?

Having said all that I do not have much time left for a question. And I do not know what question I would have. I will just look forward to your further negotiations and discussions.

Senator **McClure**. Mr. Bateman, I might just respond this way. One of my concerns is one that you have touched on, and that is, whether Congress can and will do it well.

I know that if Congressman Bennett remains here forever, as he shows signs of doing, and he is always chairman of this subcommittee, that it would be done well. But this is a changing institution, and personalities and personnel change here, just as they do downtown at the other end of the avenue. And I might be much more concerned about that with different hands in charge of the ship.

Mr. **Bennett**. Well, I must say that the bill that came before us today is mostly General Price's, because he was the person that drafted it in desperation. We have had a lot of suggestions made as to how to solve this problem. And he has made a lot of suggestions to me about how to solve the problem. And I said I am not going to introduce another bill until I think it really has a chance of doing something that we would like to do. And so this is really the end of several years of struggling with what could be done.

It has a lot of advantages to it, this approach. It will mean that things are going to be done more publicly than they have been done in the past. And I think that is an asset. I do not think that is bad. I think that is good. The press will work us over if we make mistakes, should we make parochial decisions or become involved in conflict-of-interest situations. It is all going to be there and everybody can see all of it. And we will just have to come to our own decision.

It takes leadership, courage, it takes all that sort of stuff. But the present system is a disaster. And this does get back into the hands of the constitutional authority; namely, the legislature of this thing.

Now, the red light has gone on again. So, Mr. General Blaz. And then I will come to you, Mr. Sisisky, because he has not inquired yet in our committee.

Mr. Blaz. Thank you very much, Mr. Chairman. And I apologize for being a little late. I was busy transferring some political stockpile from Guam to Senator Inouye's and Matsunaga's territory in Hawaii.

I have read your statements and I must say that I compliment you on it. I continue to be amazed at the dimension of your interest—territories, energy, stockpiling, and what else? And I can just say that I read it with interest and I am very, very supportive of it. And thank you very much, Senator.

Senator McClure. I thank you for your statement.

Mr. Bennett. Mr. Sisisky.

Mr. Sisisky. Senator McClure, after I asked you the question, somebody slipped me a note about the price tag of this. I am a pretty pragmatic politician—statesman, excuse me.

Somebody slipped me a note that said it was $19 billion. It dawns on me, Where is the magic figure of like class A, things that you would stockpile for 3 years, where is the magic figure that we know 3 years, is that good judgment to do it 3 years from an industrial perspective? And I would be interested to hear from industry of what they feel like, too. But if it——

Senator McClure. You will be hearing from industry. And I suppose you can tinker with a formula, any formula that we have. It is a formula by which we derive a goal, by whatever means, whether it is stated in a statute or done by an advisory committee or done by the staff of a committee. They look at supplies and demands and they make a relationship between that and the expected demand during wartime. And they make various kinds of assumptions with respect to what kind of a war, the extent of it, where it is, and how long it would last.

But this subcommittee, among all of the Congress, is more aware than the Congress as an average of the hazards of depending upon sealanes for transportation in time of war. I note the kind of disruption we had of shipping at the beginning of World War II and the kind of forces which the Axis could marshal against sealanes of shipping. I compare that to the capability of the Soviet Union today, and I would tell you we are much more vulnerable to interruptions today than we were then.

The administration's rather bland assumption that you can airlift materials is so ridiculous that it ought to be exposed to public view. I agree with the chairman's statement about having it exposed to public view.

Mr. Sisisky. Well, I would—this is the Seapower Subcommittee too, and we understand very well——

Senator McClure. Yes, sir.

Mr. **Sisisky** [continuing]. The number of bottoms we have, the number of Soviet submarines that are out there that are unbelievable.

But still coming back to the pragmatic, if you ask this Congress for $19 billion in a bill you know exactly what is going to happen. You know, you are talking about from $700 million, you know, to $19 billion. But even though it is right, even though it is right, but we still live in a political world. We live under Gramm-Rudman now and the desired goal. This is by law that you are talking about now.

So, somewhere along the line we have got to look at what basically we can get in the real world.

Now, I commend you. And I am waiting to hear from industry to say what we, you know, what we should really have. But it is not so much what we should really have but what we can get. I mean, this is——

Senator **McClure**. I understand that. And I do not want us to spend money needlessly. I do not think anyone does. And certainly you can have more of a material than is necessary. And maybe by the time you have looked at this you will decide that a 3-year supply is more than we need.

But if you are 100 percent dependent on something that is essential to us and we are planning for a 3-year war it does not seem unreasonable to me to say if you are totally dependent upon it, you are not certain you can get it shipped into this country from whatever its source may be, then maybe you ought to have a supply that matches the demand if 3-year war planning is your goal, which is our goal stated. And that is where the figure came from.

Mr. **Sisisky**. Thank you. I am not disagreeing with the figure. I am just thinking——

Senator **McClure**. Yes.

Mr. **Bennett**. I would like to add something to what he said. He says he is pragmatic. And I think he is. And I am pragmatic. Pragmatically what am I looking at? I am not looking at $19 billion. I am looking at the $10 billion that is now in the stockpile. I do not want to see any of that be frittered away. I do not want it to be balancing budgets. I want that $10 billion to go into things that we need to have for our stockpile. That is a pragmatic answer.

I want to keep my hands on it real tight so that they do not run away with it and balance budgets and instead do something about it in the stockpile needs that are very necessary to our defense. So I am really just talking about $10 billion, which is what they have now in the stockpile.

Now, it may be in more effulgent days we might be able to get more and move toward the $19 billion. But as a practical matter, they are trying to rape the existing stockpile. And there are things in the stockpile that could be sold. But I do not want them to be sold just to balance budgets, I want it to be applied to the things we desperately need for our national defense.

So, I am a pragmatic man like Mr. Sisisky is.

Senator **McClure**. You have also said, and I agree with you totally, they should not be sold just for budgetary reasons, even though we have them. If they are sold it should be to meet a legitimate stockpile objective with a hardheaded evaluation that they are excess to our needs.

Mr. **Bennett**. We will certainly consider your bill and the bill that you have jointly gone with me on in the matter. And we will now turn to our next witness, I think, because otherwise——

Senator **McClure**. Thank you very much.

Mr. **Bennett**. We thank you very, very much. We know that is a sacrifice for you to come over. I do not know how the Senate is taking care of it while you are gone.

Senator **McClure**. They will manage.

Mr. **Bennett**. If you would like to stay we would love to have you stay.

Senator **McClure**. Thank you. I have a meeting to attend.

Mr. **Bennett**. I figured you did; yes.

All right. The next witness is Simon Strauss. Come forward. Yes, sir.

All right. Mr. Strauss is a consultant in minerals economics, and he is chairman emeritus of the AMC Minerals Availability Committee of the American Mining Congress. For years he has advised this committee as best he could on stockpile matters. He has sought the same kind of answers we have. And he struggles through the same legislative processes. And his desires are the same, I think, as everybody else's here to see to it we have a viable stockpile.

So, it is a real pleasure to have you come before us, sir. And testify as you will.

STATEMENT OF SIMON D. STRAUSS, CHAIRMAN EMERITUS, MINERALS AVAILABILITY COMMITTEE, AMERICAN MINING CONGRESS AND CONSULTANT ON MINERAL ECONOMICS

Mr. **Strauss**. Mr. Chairman, it is a pleasure to see you again. And I can tell you that in our industry your efforts in this matter are very much appreciated because we have deep concerns about the status of the stockpile.

And I am particularly pleased to comment on H.R. 3743, a proposed revision of the Strategic and Critical Materials Stock Piling Act.

The American Mining Congress is an industry association. It encompasses producers of most of America's metal, coal, and industrial and agricultural minerals, also the manufacturers of mining and mineral processing machinery, equipment and supplies and, finally, the engineering and consulting firms and financial institutions that serve the mining industry.

Your proposed legislation deals with two aspects of stockpiling.

The first aspect is the procedure by which goals or targets are established as to the quantity and quality of each material to be stockpiled. The second aspect is the responsibility for management of the stockpile program. This statement will comment separately on each aspect and then add some general observations.

The present stockpile program dates back to legislation authorized by the Congress in 1946. At that time, and very different from the situation that exists today, the administration, the Congress, and the general public were all unanimously in agreement because they had vivid recollections of the problems that had been involved in securing adequate supplies of vital raw materials with which to conduct World War II.

Since I was involved in that effort throughout World War II, I have a very keen memory of the problems.

Before Pearl Harbor only a modest stockpiling effort had begun. Despite the lack of significant inventories of many essential commodities, the United States did succeed in supplying its military forces during the war, but it was supplied at a very heavy cost. This was measured not only in dollars—and much of your discussion this morning so far has been with regard to dollars—but I want to emphasize another aspect of the materials program which is too frequently overlooked, and that is, to acquire the materials we needed in wartime we had to divert manpower, transport facilities, scarce equipment, and energy resources to procure materials.

This meant denying those same elements to the direct military effort. Had these diversions not been necessary, World War II might well have been brought to a successful conclusion sooner and with a smaller loss of lives and property. If time permits I will be glad to provide some specific examples of what occurred in World War II and how the procurement of the strategic materials actually tended to delay our ability to fight the war.

Mr. **Bennett**. We would like to have it in the record.

Mr. **Strauss**. Yes; absolutely, sir.

Mr. **Bennett**. Good.

[The following information was received for the record:]

With regard to manpower, during World War II automatic draft deferment was extended to skilled employees in the domestic mining industry to ensure maximum production of iron ore, bauxite, copper, lead and zinc and comparable domestic materials. In their jobs these employees operated electric shovels, bulldozers, rock drills, and other earth-moving equipment; they drove large ore-carrying trucks. These skills were precisely the skills required by the Army Engineers and the Navy Seabees to build airports, provide access roads at the fighting fronts, naval bases and the like. Because they were not available to the military, people without these skills had to be drafted and trained over extended periods of time—thus delaying the time when they could be put to work at the fighting fronts.

With regard to transport, in the absence of adequate stockpiles of bulk imported materials such as bauxite, chromite, manganese ores, and raw materials for the copper, lead, zinc, tin and nickel industries, a large share of the available merchant fleet had to be diverted away from the fighting fronts to insure the transport of these materials from Latin America, Africa, Australia and the Indian sub-continent. Had this diversion not been necessary, more transports would have been available to carry men and materials to the war theaters at earlier dates. Moreover, many of the merchant vessels were lost to enemy submarines——the prime example being the loss of 25% of all vessels carrying bauxite cargoes from South America in the Caribbean during 1942 at a time when the North African fighting front was being opened.

With regard to scarce equipment, in order to expand domestic production of strategic materials, the domestic mining industry had to be given first priority claims on bulldozers, scrapers, trucks, shovels, rock drills, portable compressors and generators and similar machinery. These items were in short supply and were in great demand for direct military use. Had it not been necessary to assign them to the mining industry, they would have been available for building airports, naval bases, access roads, etc. In any war, to maintain domestic production some of these items would have to be made available to industry——but the point is that the effort to expand production during war meant an increased quantity of these items were diverted away from the military forces. The capital intensive nature of the minerals industry is not comprehended by many of those who blithely assume that mineral production can readily be expanded if needed.

With regard to energy supplies, the minerals industry is an enormous consumer of electric power and of mineral fuels. In a time when oil supplies were strictly rationed, huge amounts of gasoline and Diesel fuel had to be made available to operate mobile equipment in the mines. Large amounts of oil, natural gas, and coal were required to expand metal production through the processing plants. And the fourfold increase in aluminum capacity during World War II required a corresponding massive expansion of electric generating capacity to supply the reduction plants.

The same people who maintain that in wartime mine production and recycling can be expanded to replace imports are the ones who argue that shortages of oil during war will put limits on civilian industrial activity. Stockpiles of materials are also stockpiles of energy.

Mr. **Strauss**. Moreover, the geography of World War II had greatly favored U.S. access to raw material supplies. Throughout the war all of Latin America, Australia, the mineral-producing regions of Africa and much of Asia remained accessible to us, even though there were heavy shipping losses on vital sealanes.

My question is—and Senator McClure referred to this earlier—Is there assurance that this scenario would be repeated in a future global conflict?

Many shifts of policy have marked the history of the stockpile program since 1946. During the first 15 years the program was conducted under a cloak of confidentiality. Large quantities of materials were acquired, but the goals and the amounts of the individual commodities were not publicly disclosed. In the early sixties the first major change occurred. President Kennedy then expressed the view that the stockpiles were too large. As a consequence, goals were reduced. The public was informed for the first time as to the size of the goals and the amounts held. Large amounts were classified as surplus to requirements. And beginning in 1963, stockpile activity was largely confined to sale of these perceived surpluses. We did not add to the stockpile after 1963 intil 1979 or 1980, as you indicated earlier.

In the early seventies the Nixon administration proposed a further drastic reduction in stockpile goals. Congress was asked to authorize additional major disposals. The administration openly linked the proposed sales with its policy of inflation control, as you also said earlier.

It was alleged that in the event of an emergency domestic production of some materials could be quickly expanded and that for items not produced within the Nation's boundaries large-scale substitution of alternate materials would be feasible.

This approach was viewed with skepticism within the Congress as well as by many informed industry and military leaders. Thanks to hearings held by this subcommittee, then as now chaired by you, Representative Bennett, the proposed dismantling of the stockpile was prevented. In 1976 the Ford administration instituted a new evaluation of stockpile goals, restoring many items to levels comparable with those that prevailed in the early sixties.

As a further safeguard against the temptation to use stockpile sales as a weapon for budget balancing or price controls, in 1979 Congress decreed that proceeds from stockpile sales should be earmarked for a transactions fund to be used to make new stockpile purchases where holdings were less than the goals. The Carter administration later reviewed the goals originally established in 1976 and agreed with the basic premises, making only minor changes in specific goals.

In July of last year, however, the Reagan administration informally—and I stress that word because it has not yet been done formally—submitted a new plan. Stockpile goals were drastically reduced to levels even lower than the Nixon proposals of 1973. A supplemental reserve was created, the exact legal status of which was not precisely defined but apparently leaves the way open to eventual liquidation at some future date.

The White House release suggested sales at the rate of $500 million a year for 5 years. In discussions of the revisions it became clear that the National Security Council's underlying assumptions included at least four major premises:

One, that in wartime production of goods deemed nonessential, such as private automobiles, would be suspended;

Two, that major substitution of abundant materials would be feasible and that increased recycling of some scarce materials would add to supply;

Three, that domestic production could be expanded by resuming production in facilities now closed and by expanding operations at present producing sites; and

Four, that much of this would be initiated prior to actual outbreak of hostilities because there would be close monitoring by the Government of the international situation.

Clearly, these underlying assumptions are crucial to the development of stockpile goals for individual materials. If you change the assumptions, immediately the indicated goals are changed. During the 40 years the present program has been in existence, goals have been changed for most of the key materials between 10 and 15 times—the roller coaster that you referred to earlier.

The changes are not small. For such basic commodities as aluminum and copper, the goals have varied between zero and millions of tons. In the most recent revisions the goals for platinum and palladium have been completely eliminated, even though these two precious metals have many vital industrial applications and even though 95 percent of world supply originates either in the Soviet Union or the politically troubled nation of South Africa.

That under these circumstances there should arise a desire to establish congressional control of the goal-setting apparatus seems to us in the American Mining Congress to be entirely appropriate. Supplies of basic materials are just as vital to the national defense as are the aircraft, ships, tanks, and other items of war material which fall under detailed congressional scrutiny and require congressional approval.

For several years Senator McClure has suggested that the basic formula for setting stockpile goals should be linked to the degree of import dependence and that goals should be gradually adjusted as import dependence shifts. This is a concept which the American Mining Congress has repeatedly endorsed. Enactment of the goal-setting provisions of H.R. 3743 would represent a step forward in bringing some stability to the stockpile program—a stability that has been sadly lacking for the last two and a half decades.

Apart from its concerns over the frequent shifting of stockpile goals, the American Mining Congress has also repeatedly expressed concern over the division of responsibility that exists in the management of the stockpile. No single agency has the primary task of administering the program. Fragmentation of responsibility in our view leads to operating inefficiencies.

In the volatile commodity markets, time delays caused by divided responsibility have led to missed opportunities in the buying or selling or upgrading of the materials which have become obsolete because of changed technology.

The bill before your committee addresses these concerns by proposing to vest in the Secretary of Defense responsibility for administering the program. Appropriations for the operation of the stockpile and for acquisition through the stockpile transaction fund would be made to the Department of Defense.

In our view such a move would represent an improvement over the present situation by clearly concentrating authority for a program that is now diffused in several directions among agencies having multiple responsibilities.

However, the American Mining Congress has long believed that the stockpile program could be still further improved by entrusting its operation to an organization having no responsibilities other than the administration and management of the stockpile. Obvious though the linkage is between the Department of Defense and the stockpile, the raw materials program would be only one of many responsibilities that that department administers. At times other and more pressing priorities would perhaps cause the Department to subordinate stockpile issues.

It is our view that the stockpile lends itself to the creation of a single discrete agency having no other duties than stockpile matters. Over the years we have urged the establishment of a quasi-public corporation to hold the stockpile, empowered to buy or sell commodities as changing circumstances dictate. We believe such an entity could undertake innovative financing procedures that would greatly reduce the impact on the national budget.

Before concluding, Mr. Chairman, and members of the committee, we would like to make some general observations. The stockpile is basically a form of insurance with which the Nation can buy time in the event of national emergencies. Time is the key consideration. With time it is possible to increase domestic production, expand recycling, develop substitutes, and even reduce demand, but each of these matters takes time.

A clear example is the energy crisis. When the Arab oil embargo of 1973 was followed by the action of OPEC in tripling oil prices in 1974, President Nixon announced that the country would seek to become self-sufficient in energy supplies through conservation, through substitution of alternative energy sources to oil, and through expansion of domestic resources—precisely the things that the National Security Council says can be done in regard to strategic materials. But mark you, 12 years later, while many of these steps have been taken, while we are a more efficient user of energy, while some substitution of alternate alternative energy sources has occurred, and while national reliance on the Persian Gulf area has been drastically reduced, we are still not energy self-sufficient.

In the intervening years oil consumers experienced a second and equally drastic move in prices in 1979 and 1980. Five to 6 years after the administration announced it was going to solve the problem by making us self-sufficient we went through a second bout of energy crisis which was even more exasperating than the first. Long lines developed in front of every gasoline service station. Two severe recessions related to oil-price-related distortions have profoundly altered the shape of the Nation's economy. We have had terrific inflation. The country has even moved to the creation of a strategic oil reserve, parallel in many respects to the reserve of strategic and critical materials. It is not yet completely filled. There are those who will say that had we had such an oil reserve in 1974 the subsequent difficulties created by sharply rising oil prices might have been avoided or at least substantially mitigated.

There is a lesson here for those who believe that in the event this Nation is again plunged into war its material requirements can be met by expanding production, by recycling, by conservation and by substitution. All of these steps take time, more time than the optimists believe. Eventually they can be achieved, but in the interim the nation's very existence might be jeopardized.

In the view of the American Mining Congress, the stockpile's chief value is the savings it can afford the Nation in the event of emergency—savings not only in time but in manpower, transport, energy, and scarce equipment.

I want to thank the committee for enabling me to present these observations on behalf of the American Mining Congress and I will be very pleased to respond to questions and to substantiate the generalities in my statement with specific examples.

[Statement of Mr. Strauss follows:]

PREPARED STATEMENT OF SIMON D. STRAUSS

Mr. Chairman and Members of the Committee: The American Mining Congress welcomes this opportunity to present its views and comments on H.R. 3743, a proposed revision of the Strategic and Critical Materials Stock Piling Act. The American Mining Congress is an industry association that encompasses (1) producers of most of America's metals, coal, and industrial and agricultural minerals, (2) manufacturers of mining and mineral processing machinery, equipment and supplies; and (3) engineering and consulting firms and financial institutions that serve the mining industry.

The proposed legislation deals primarily with two aspects of stockpiling.

The first aspect is the procedure by which goals or targets are established as to the quantity and quality of each material to be stockpiled. The second aspect is the responsibility for management of the stockpile program. This statement will comment separately on each aspect and then add some general observations.

The present stockpile program dates back to legislation authorized by the Congress in 1946. At that time the Administration, the Congress and the general public had vivid recollections of the problems involved in securing adequate supplies of vital raw materials with which to conduct World War II.

Before Pearl Harbor only a modest stockpiling effort had begun. Despite the lack of significant inventories of many essential commodities, the nation succeeded in supplying its military forces during the war—but there had been a heavy cost. This was measured not only in dollars but in diversions of manpower, transport facilities, scarce equipment and power resources to procure materials. This meant denying those factors to the direct military effort. Had these diversions not been necessary, the war might well have been brought to a successful conclusion sooner and with a smaller loss of lives and property. If time permits I will be glad to provide specific examples.

Moreover, the geography of World War II had greatly favored U.S. access to raw material supplies. Throughout the war all of Latin America, Australia, the mineral-producing regions of Africa and much of Asia remained accessible to us (although there were heavy shipping losses on vital sea lanes). Is there assurance that this scenario would be repeated in a future global conflict?

Many shifts of policy have marked the history of the stockpile program since 1946. During the first fifteen years the program was conducted under a cloak of confidentiality. Large quantities of materials were acquired, but the goals and the amounts of the individual commodities were not publicly disclosed. In the early sixties the first major change occurred. President Kennedy then expressed the view that the stockpiles were too large. Goals were reduced. The public was informed as to the size of the goals and the amounts held. Large amounts were classified as surplus to requirements. Beginning in 1963 stockpile activity was largely confined to sale of these perceived surpluses.

In the early seventies the Nixon Administration proposed a further drastic reduction in stockpile goals. Congress was asked to authorize additional major disposals. The administration openly linked the proposed sales with its policy of inflation control. It was alleged that in the event of an emergency domestic production of some materials could be quickly expanded and that for items not produced within the nation's boundaries large-scale substitution of alternate materials would be feasible.

This approach was viewed with skepticism within the Congress a well as by many informed industry and military leaders. Thanks to hearings held by this subcommittee, then as now chaired by Representative Bennett, the proposed dismantling of the stockpile was prevented. In 1976 the Ford Administration instituted a new evaluation of stockpile goals, restoring many items to levels comparable with those that prevailed in the early sixties. As a further safeguard against the temptation to use stockpile sales as a weapon for budget balancing or price controls, Congress in 1979 decreed that proceeds from stockpile sales should be earmarked for a transactions fund to be used to make new stockpile purchases where holdings were less than the goals. The Carter Administration later reviewed the goals established in 1976 and agreed with the basic premises, making only minor changes in specific goals.

In July of last year, however, the Reagan Administration informally submitted a new plan. Stockpile goals were drastically reduced to levels even lower than the Nixon proposals of 1973. A supplemental reserve was created, the exact legal status of which was not precisely defined but apparently leaving the way open to eventual liquidation at some future date. The White House release suggested sales at the rate of $500,000,000 a year for five years. In discussions of the revisions, it became clear that the underlying assumptions included at least four major premises: (1) that in war-time production of goods deemed non-essential, such as private automobiles, would be suspended; (2) that major substitution of abundant materials would be feasible and that increased recycling of some scarce materials would add to supply; (3) that domestic production could be expanded by resuming production in facilities now closed and expanding operations at present producing sites; and (4) that much of this would be initiated prior to actual outbreak of hostilities because there would be close monitoring by the government of the international situation.

Clearly, the underlying assumptions are crucial to the development of stockpile goals for individual materials. Change the assumptions and immediately the indicated goals are changed. During the forty years the present program has been in existence, goals have been changed for most of the key materials between ten and fifteen times. The changes are not small. For such basic commodities as aluminum and copper, the goals have varied between zero and millions of tons. In the most recent revisions the goals for platinum and palladium have been completely eliminated, even though these precious metals have many vital industrial applications and even though about 95% of world supply originates either in the Soviet Union or the politically troubled nation of South Africa.

That under these circumstances there should arise a desire to establish Congressional control of the goal-setting apparatus seems to us in the American Mining Congress to be entirely appropriate. Supplies of basic raw materials are just as vital to the national defense as are the aircraft, ships, tanks and other items of war material which fall under detailed Congressional scrutiny and require Congressional approval. For several years Senator McClure has suggested that the basic formula for setting stockpile goals should be linked to the degree of import dependence—and that goals should be gradually adjusted as import dependence shifts. This is a concept which the American Mining Congress has repeatedly endorsed. Enactment of the goal-setting provisions of H.R. 3743 would represent a step forward in bringing some stability to the stockpile program—a stability that has been sadly lacking for the last two-and-a-half decades.

Apart from its concerns over the frequent shifting of stockpile goals, the American Mining Congress has also repeatedly expressed concern over the division of responsibility that exists in the management of the stockpile. No single agency has the primary task of administering the program. Fragmentation of responsibility in our view leads to operating inefficiencies. In the volatile commodity markets, time delays caused by divided responsibility have lead to missed opportunities in the buying or selling or upgrading of materials which have become obsolete because of changed technology.

The bill before your committee addresses these concerns by proposing to vest in the Secretary of Defense responsibility for administering the program. Appropriations for the operation of the stockpile and for acquisitions through the Stockpile Transaction Fund would be made to the Department of Defense.

In our view such a move would represent an improvement over the present situation by clearly concentrating authority for a program that is now diffused in several directions among agencies having multiple responsibilities.

However, the American Mining Congress has long believed that the stockpile program could be still further improved by entrusting its operation to an organization having no responsibilities other than administration and management of the stockpile. Obvious though the linkage is between the Department of Defense and the stockpile, the raw-materials program would be only one of many responsibilities the department administers. At times other and more pressing priorities would perhaps cause the department to subordinate stockpile issues.

It is our view that the stockpile lends itself to the creation of a single discrete agency having no other duties than stockpile matters. Over the years we have urged the establishment of a quasi-public corporation to hold the stockpile, empowered to buy or sell commodities as changing circumstances dictate. We believe such an entity could undertake innovative financing procedures that would greatly reduce the impact on the national budget.

Before concluding, Mr. Chairman and members of the Committee, we would like to make some general observations. The stockpile is basically a form of insurance with which the nation can buy time in the event of national emergencies. Time is the key consideration. With time it is possible to increase domestic production, expand recycling, develop substitutes, and even reduce demand.

A clear example is the energy crisis. When the Arab oil embargo of 1973 was followed by the action of OPEC in tripling oil prices in 1974, President Nixon announced that the country would seek to become self-sufficient in energy supplies through conservation, substitution of alternative energy sources to oil, and expansion of domestic resources. Twelve years later many of these steps have in fact been taken. The country is a more efficient user of energy, some substitution of alternative energy sources has occurred, and national reliance on the Persian Gulf area has been dramatically reduced.

But in the intervening years, oil consumers experienced a second and equally drastic move in oil prices in 1979 and 1980, with long lines developing in front of every gasoline service station. Two severe recessions related to oil-price-related distortions have profoundly altered the shape of the nation's economy.

The country has even moved to the creation of a strategic oil reserve—parallel in many respects to the reserve of strategic and critical materials. It is not yet completely filled. There are those who will say that—had we had such an oil reserve in 1974—the subsequent difficulties created by sharply rising oil prices might have been avoided or at least substantially mitigated.

There is a lesson here for those who believe that in the event this nation is again plunged into war its material requirements can be met by expanding production and recycling, by conservation, and by substitution. All of these steps take time—more time than the optimists believe. Eventually they could be achieved—but in the interim the nation's very existence might be jeopardized.

In the view of the American Mining Congress, the stockpile's chief value is the savings it can afford the nation in the event of emergency—savings not only in time but in manpower, transport, energy, and scarce equipment.

I wish to thank the Committee for enabling me to present these observations on behalf of the American Mining Congress. I will be pleased to respond to questions and to substantiate the generalities in my statement with specific examples or explanations.

Mr. **Bennett**. We appreciate very much your being here and testifying. You are a person who struggled, as I said before, just like we have in Congress to find the right answer.

You made a specific suggestion as a possibility of setting up a separate quasi-public concern. I have a little worry about that in that the present administration is apparently thinking that that sort of concern, that sort of a corporation that we have now with regard to TVA and other such things is something that we could sell to balance the budget. In other words they are even thinking about selling off the mortgage things, which obviously would make money for the Government in the long pull otherwise nobody would buy them. I mean, if they are not going to make money nobody is going to put up hundreds of millions or billions of bucks to buy them unless they are going to make money for somebody.

So, obviously, we are just in desperation selling off the family inheritance to get something for our current fury. That worries me about what might happen.

And another thing that worries me about it is the fact that after all it does have to be appointed by somebody. And if you want to appoint somebody to run a corporation or carry out its functions, you can do that, you can appoint people that you do not control.

The problem that we are facing in this committee is to find whatever solution that may be the most logical. I am not locked in concrete about the bill that we have before us, but to find whatever solution we can find where we can have a stockpile that is a meaningful stockpile for defense. And I am afraid that almost every proposed substitution for managing the stockpile has not been very workable.

And I realize you are not testifying against this thrust, but you have suggested another thrust, which is what we will look at in our hearing—I mean in our deliberation and markup. But I am apprehensive that that might be the very sort of thing this administration might want to sell if we ever established it, because it is now trying to sell off similar things.

Does that not worry you a bit?

Mr. STRAUSS. Well, sir, there is no perfect solution to human problems, unfortunately. And I know that some people are very concerned, for instance, with regard to the recent history of the synthetic fuels organization. But the synthetic fuels organization was trying to deal with development of new technology in an unproved field and subject to enormous loss.

As you succinctly said earlier, the stockpile has really not been, in terms of current dollars at least, a burden to the taxpayers of this country. When President Kennedy disapproved of the size of the stockpile, the value of the materials then on hand was $8 billion. In the sales that were made subsequent to 1973 that I referred to, more than $8 billion has been collected. And what is $8 billion: $8 billion minus $8 billion is $10 billion because that is the value of what we have left, almost all of which dates back to before Mr. Kennedy's remarks. And that shows what inflation and other changes have done.

Since the stockpile is a tangible asset since it does not deteriorate and since it is going to be there for future generations, it seemed to us in the industry that one of the things we ought to do is get it off the budget. People think that it contributes to the deficit, buying material for the stockpile, but actually the Nation is acquiring a permanent asset which has permanent value to it.

That is why we have argued for forming a corporation which could issue its own securities backed by the stockpile as collateral, which would have some interest, I believe, in the present market.

Mr. **Bennett**. Anybody want to inquire or make a statement?

Mr. **Spence**. Mr. Chairman, on that point.

Mr. **Bennett**. Yes, sir, Mr. Spence.

Mr. **Spence**. On that very point there I was wondering, too, about the financing arrangement for this quasi-public corporation. I do not know if you could—if it would have access to the extent you could sell it and make a lot of money as the chairman suggests, but how would you finance it? And some of the concerns he had too about who would do the appointing? And would they truly be separated from the job they are doing and other entanglements?

Mr. **Strauss**. Well, Congressman Spence, at present the stockpile has two commodities which the administration and the previous stockpile goals indicate are in substantial surplus. And they represent several billion dollars of materials. These two commodities are silver and tin.

Now, it is an interesting fact that a small mining company—incidentally, in Senator McClure's State of Idaho—has issued silver-backed bonds on which it was able to float these bonds convertible into silver at a price substantially above the present market, at a much lower rate of interest than even the U.S. Treasury was having to pay at the time that this company issued those securities.

In my opinion, a silver-backed bond, because there are a lot of people interested in speculating in precious metals, would have enormous attraction to the general public. You would avoid selling the silver on the market, which would depress the price. Instead of that, people would buy the bonds. And you would be able to sell them, in my opinion, at a low rate of interest, particularly if they are Government-backed bonds. So there would be a way of raising the money with which to buy some of the materials of which we are still short.

Mr. **Bennett**. Well, of course, I am not so unsure that the Congress could not do that, do it also. And we could still—see, we have not found anybody who is willing to manage this stockpile thing for the purpose of a stockpile, and so it gets back to us eventually. I mean, if we are the only people that are willing to do it, well, we will do it.

And your bond idea is a good one. I told my assistant here we will put that down. And maybe we will sell bonds with silver.

Mr. **Strauss**. Right.

Mr. **Bennett**. OK, that is a good thought because—and you touched on sort of a nerve on this thing—because silver and tin have been very awkward things. I mean, you know, there are good allies of ours that are dependent upon tin, for instance. Lovely people, great countries that need for us not to sell this tin off.

Mr. **Strauss**. Particularly not now that the international agreement just collapsed.

Mr. **Bennett**. Yes; that is right. It would be a cataclysmic change. It would bring the countries down. And they are democracies and they are friends. And so it is touching to hear the people coming to me and talk with tears in their eyes about the possibility of selling off tin and what it would do to their country.

So there are a lot of very complex things in there. But you know, I guess I am a friend of my own opinion, and I think Congress is a very great organization. And we are subject to public scrutiny. We can be pilloried in the press and the media, everything we do that is wrong can be readily ascertained. And I am not sure we are not the best people to bite the bullet and go forward with it since nobody else will. That is the—if there was somebody else, we found somebody else that would do it and do it honestly. I do not look forward to this as a pleasurable thing, but it seems to me we might be able to do it.

And your bond idea is a good one.

Now, has anybody else got a question of this witness? I have—there is a man that I am about to call on here that is out of—Mr. Traficant is not really in the order of most of this testimony. And I am going to go to him next.

Is there any question of the present witness?

[No response.]

Mr. **Bennett**. There are no questions.

We appreciate very much your having come.

Mr. Traficant, if you will come forward. This is a little bit out of the ordinary procedure of this committee but it is something which I promised to this very fine Congressman that we would address, which has a relationship to the stockpile, but it is not necessarily directly involved in this particular legislation. Maybe.

But anyway, we will hear from you now. And it is a great pleasure to have you here. You are a real leader. In Congress, I see people come and go. And I tell you, you are one that I see has not been here very long but has made his imprint very greatly already here.

STATEMENT OF HON. JAMES A. TRAFICANT, JR., A REPRESENTATIVE FROM OHIO

Mr. **Traficant**. Thank you, Mr. Chairman. I would like to thank you, Mr. Chairman, and the members of the committee for giving me this opportunity. I ask that the following materials be included in the record after my statement.

I will not necessarily stick directly to that testimony, but I will try to, as best as possible, abbreviate and move forward on the two main issues that I bring before you.

I thank you for the opportunity to be here before this committee and for your giving me the chance to discuss the titanium issue with you.

Mr. **Bennett**. This is about titanium?

Mr. **Traficant**. It is about titanium and also about the administration's plans to, in fact, to in fact reduce the national defense stockpile and sell some of our critical materials off in an effort to reduce the deficit among other areas, which I feel is completely illegal and contradictory to accepted policy. I would like to bring this issue forward as a Member, not of this committee, but as a Member of Congress whose district is affected.

First of all, in my district there is a highly respected corporation known as the RMI Co. that specializes in titanium. To update, in 1983, the Federal Emergency Management Agency has authorized the General Services Administration to buy titanium that was, in my opinion, illegally dumped from Japan, far below current production prices.

Now, the first prospectus that came out said that there should be necessary tariffs and duties attached when these bids were given. Then administrative action was taken which overlooked this fact. The bottom line was that the General Services Administration had purchased, in my opinion, illegally dumped titanium, which is in direct contradiction to the antidumping laws of America that all of American industry is subject to. The Federal Gorvernment received a special benefit, were able to circumvent tariffs and duties, and purchased from Japan almost two-thirds of the procurement contract necessary as far as titanium was concerned.

Now, I specifically feel this is very injurious to American industry in general. It negatively impacted my district, which makes it that much more a matter for my intervention.

Mr. BENNETT. Where did the titanium go? Did it go to the stockpile?

Mr. TRAFICANT. It went to the stockpile. It was purchases made for the national defense stockpile.

Now, in a letter to the Commerce Department dated October 16, 1985, I urged the Commerce Department to make a clear and definitive statement that imports for the stockpile should not be excluded from the scope of U.S. antidumping and countervailing duty laws. This practice has been under review by the Commerce Department since a hearing was held on February 8, 1985. At that time it was stated, chairman, that a decision would be made by April 1, 1985. And I have been more or less put off since that time waiting for a decision on policy and practice concerning this. In my opinion, this is a very dangerous precedent and a very injurious practice to American industry. I have yet to this day to receive an answer.

Now, I had asked, in an effort to further amplify upon this situation, giving the committee a reasonable opportunity to question this nonresponsiveness that the Department of Commerce to send a representative, a trade representative, to address this issue. And perhaps you could have asked them specific questions on these areas of concern that I bring forward.

The Department of Commerce stated that the appropriate individual would not be available, he had to be out of the country. But they assured me that within 10 days they would give me a decision as to this practice.

My position is simply this, for the record. The impact of these titanium purchases being made by the General Services Administration is undercutting American interests and its industries. It is discouraging U.S. manufacturers from producing these vital products, which would be disastrous in the event of a national emergency.

That is strictly my position. I am concerned that these practices will continue to injure industry in America and, specifically, those industries in my area as well. I think this committee should put its foot down, or at least look into the rationale for this practice.

Mr. BENNETT. Do you need a legislative law? I mean, do you need a law?

Mr. TRAFICANT. I was hoping that in bringing this to your attention that perhaps you and the committee could recognize this need, and perhaps clarifying language is appropriate. However, I believe it may not necessarily need legislation if the U.S. Government would follow the policy dictated to all other American industry.

Mr. BENNETT. I would be glad to help you as chairman of this committee to try to get this solved. But you see, if you have been listening to this testimony today, you realize our executive branch, not just this administration but past administrations have been a part of our problem, not a part of the solution. So I am suggesting to you that maybe your staff members or maybe our staff plus your staff might be able to get some language in the bill that we add in this matter relative to what you are complaining about.

Mr. TRAFICANT. I would certainly appreciate that opportunity. I have a small staff, but I would be glad to have them interact with your staff. Your professional staff understand this problem very well to bring the intent in some of the——

Mr. BENNETT. We do not have to have an intent, we can pass a law. We can just say that whatever it is you dislike is not going to be the law.

Mr. TRAFICANT. I agree with that.

Mr. BENNETT. And so you just give us the language you would like to have.

I have gathered what you want to have is that there is no ability to waive this dumping thing with regard to the stockpile.

Mr. TRAFICANT. Yes.

Mr. BENNETT. You could put a law in there just abolishing the waiverability or making the waiverability something that had to go before Congress for 30 days or something like that. There are various ways you could do this. And I would be open to such a suggestion.

I do not have it in my head right now what it would be, but from what you say it is capable of being put into the law. And if it is law, well, we do not have to debate it, it is the law.

Mr. TRAFICANT. That would be excellent. That is fine. What I meant by——

Mr. BENNETT. You will not have to persuade anybody.

Mr. TRAFICANT. Yes.

Mr. BENNETT. I am not real good at persuading people about the stockpile so I am inclined to lean toward the law.

Mr. TRAFICANT. Well, that is not unusual. Even the great President Eisenhower had a rough time on the national defense stockpile, Mr. Chairman. But what I meant by my intent was that we could formulate those intentions from the information we have reviewed and put it in the law. I would be happy to participate in any way I can to see that this is done.

Mr. BENNETT. Give us a draft and we will work on it.

Mr. TRAFICANT. We certainly will.

The second issue that I want to talk about is the manipulation of the national defense stockpile to provide extra dollars for lowering our deficit. This manipulation of dollars has an adverse effect upon the availability and the viability of the national defense stockpile.

I bring this to the committee's consideration. The administration, in my opinion, is ignoring current law and proposing, among other things, to reduce the deficit by reducing the national defense stockpile. Now, specifically, I feel this is dangerous, almost preposterous, and goes against the grain of all conventional wisdom that was responsible for original creation of this stockpile in the first place.

Specifically, I want to have these words on the record in my personal testimony. In Public Law 96-41 it states, and I quote now from section 3(b)(1) as follows: "The purpose of the stockpile is to serve the interest of national defense only and is not to be used for economic or budgetary purpose."

In the President's fiscal year 1987 budget for the General Services Administration it calls for, I quote, "capital transfer to general fund for" $871 million. I will repeat, $871 million. From the President's statement released in July 1985 regarding the stockpile it says, and I quote, "receipts from the sales program will go to fill unmet material goals under the 1984 study." That is understandable. However, the remainder, this is my concern that I now bring to the attention of the committee. The remainder will go to reduce the deficit. Reduce the deficit?

In my additional materials is a letter that was written by General Eisenhower after he was President. I think it explains better than anyone else in American history what the intent of the stockpile was and is. It demonstrates the difference of how some people look at it positively and negatively. He talks about the national defense stockpile as an insurance policy: if, you do not have it and a catastrophe strikes, we are in trouble; if you do have it, it looks like a waste until it is needed. Nevertheless, we cannot judge that fine line, but the law clearly indicates that that national defense stockpile cannot be gerrymandered for economic, budgetary, or other types of reasons. Its issue is simply national defense.

So I particularly feel that the apparent disinterest of the Commerce Department regarding antidumping duties and now the administration's intent on reducing goals of the stockpile, one can only speculate as to the catastrophic impact this will have on our industry and on our national defense.

I do not think there is anybody else in the Congress—and this is not patronizing—I do not think there is anybody else in the Congress who fights any harder for our national defense than you, Mr. Chairman. And you are not afraid to take on issues sometimes that buck the administration, a very powerful administration at that. In this area, I think, they are wrong. I think they are breaking the law. I think they are going against current law and the intent of that law as drafted by legislators with many hours of review and scrutiny.

And I think this, that if we continue to let this practice go on we will do two things—we will not have a solid national defense stockpile and, second, we will not have an American industry to produce these materials unless they are encouraged to become a part of that process. The administration has got to stop skirting American law.

I do not think the Federal Government would be outside of the law as far as antidumping, countervailing duty laws, and those necessary restraints that have been placed to keep American industry competitive. And that is what I am here for.

[Statement of Mr. Traficant follows:]

PREPARED STATEMENT OF HON. JAMES A. TRAFICANT, JR.

I would like to thank Chairman Charles Bennett and the Members of the Subcommittee for this opportunity to appear before you today. I believe the subject of this hearing is very important. That is H.R. 3743 to establish the goals for the National Defense Stockpile. In my humble opinion this legislation is long overdue and I congratulate the Chairman for his foresight on this issue.

There are two issues I would like to address today. Both involve the impact of the decisions on the National Defense Stockpile on our domestic industries.

In 1984, Japanese imports of titanium sponge required for the NDS were sold well below fair market value and found to be injuring the U.S. titanium sponge industry, and my constituent, the RMI Company, a major manufacturer of titanium products of Niles, Ohio. At that time, this imported titanium accounted for two-thirds of a General Services Administration procurement contract for the Stockpile. My concern centers around the fact that the U.S. continues to make purchases of Japanese titanium for the National Defense Stockpile.

In a letter to the Commerce Department dated October 16, 1985, I urge the Commerce Department to make a clear and definitive statement that imports for the Stockpile should not be excluded from the scope of U.S. antidumping and countervailing duty laws. This practice has been under review by the Commerce Department since a hearing was held on February 8, 1985. At the time, it was stated that a decision would be made by April 1, 1985. As of today, no decision has been made. I can understand to some extent a delay in reaching a decision, but almost a year has elapsed and this is intolerable.

The impact of these titanium purchases being made by the Commerce Department is undercutting American interests and its industries. It is discouraging U.S. manufacturers from producing these vital products which would be disastrous in the event of a national emergency.

The other point I'd like to make is that I am greatly disturbed by the Administration's continuance in ignoring the current law and proposing to reduce the deficit by reducing the National Defense Stockpile. This is indeed dangerous, preposterous and completely against all conventional wisdom responsible for the creation of the Stockpile in the first place.

In Public Law 94-41 it states, and I quote from Section 3 (b) (1) "The purpose of the Stockpile is to serve the interest of national defense only and is not be to used for economic or budgetary purpose." In the President's fiscal year 1987 budget for the General Services Administration it calls for "capital transfer to general fund for $870.953 million." Let me repeat, a transfer of $870 million. From the President's statement released in July, 1985, regarding the NDS, it says "receipts from the sales program will go to fill unmet materials goals under the 1984 study; the remainder will go to reduce the deficit." Reduce the deficit!

The current public law and the Administration's position is contradictory. This Committee as well as the entire Congress is alerted to this fact. As Chairman Bennett and other Members of the Committee have so eloquently stated, the Administration is using the Stockpile for budgetary purposes, risking national security and they are not going to sit by quietly and let it happen.

The apparent disinterest of the Commerce Department regarding the antidumping duties and now the Administration's intent on reducing the goals of the Stockpile, one can only speculate as to the catastrophic impact this will have on our domestic industry. The National Defense Stockpile is a vital resource to this nation that must be protected. It is our insurance policy, our safeguard in case of an emergency. We must build strength within and protect, preserve and sustain those domestic industries that will be hurt if this national policy changes. The domestic production of titanium and other vital defense products could be critical to the future survival and success of our nation.

Once again, I want to thank the Chairman for his foresight in addressing this situation and bringing forth meaningful legislation like H.R. 3743. I am hopeful that the Committee will continue to thoroughly review the status of the Stockpile and develop long-term goals to be followed, not the yo-yo kind of policies we have seen over the past years. Thank you for this opportunity to testify. That concludes my testimony.

GETTYSBURG, PA., *September 24, 1963.*

Hon. CLIFFORD P. CASE,
U.S. Senate, Washington, D.C.

DEAR SENATOR CASE: I appreciate your inquiry into the policy considerations which led to my decision in 1954 to establish new long-term policies applying to stockpiling.

You will recall that, when we became involved in World War II, our lack of an adequate stockpile of strategic and critical materials gravely impeded our military operations. We were therefore forced into costly and disruptive expansion programs. The Nation was compelled to divert, at a most critical time, scarce equipment and machinery and manpower to obtain the necessary materials. However, the need for such a program was recognized and theoretical objective established on a predicted 5-year war.

But even after this experience, we had not fully learned our lesson. After World War II stockpiling was confined too much to mere talk—it neglected implementation. After we became involved in hostilities in Korea, we went through experiences almost identical with those of World War II—only then did realistic stockpiling begin.

When I became President I was determined that we benefit from these mistakes of prior years. It was from this conviction that my long-term stockpile policy evolved. Happily, Congress supported this effort and, after considering the programs we presented, it appropriated the yearly funds needed to make the purchases. In 1958 constant restudy changed our stockpile objectives to those necessary for a war of 3 years' rather than 5 years' duration. As a result today of this entire enterprise we have, for the first time in our history, stockpiles of strategic and critical materials.

The Nation's investment in these stockpiles is comparable to the investment made in any insurance policy. If an emergency does not arise, there are always those who can consider the investment a waste. If, however, the investment had not been made and the emergency did arise, these same persons would bemoan, and properly so, the lack of foresight on the part of those charged with the security of the United States. I firmly rejected the policy of too-little, too-late stockpiling. As a result when my administration left office in 1961, the Nation was strongly situated in this regard to deal with the forces of international communism.

Like all other defense activities, the policies underlining the acquisition of strategic and critical materials should be reviewed from time to time in order to keep them attuned to changed conditions. I hope, however, that Members of Congress will keep in mind that these materials are assets—not liabilities—also, that these Members will not permit anyone to dispose of any quantities of any of them until they have assured themselves, after listening to competent testimony that this disposal can proceed without injury to the national security, The Congress should never relinquish its right to pass on executive branch proposals to sell materials in the stockpiles. Too much is at stake.

A final observation based on experience in public life is that while in such matters hindsight is often desirable and even enjoyable, foresight is always a necessity.

Sincerely,

DWIGHT D. EISENHOWER.

Mr. BENNETT. You made a very fine statement.

Any questions of this witness? And if not——

Mr. SPENCE. Mr. Chairman.

Mr. BENNETT. Yes? Yes, Mr. Spence.

Mr. SPENCE. Titanium is what you are concerned about?

Mr. TRAFICANT. Primarily titanium and other materials needed for the stockpile.

Mr. SPENCE. It is my understanding that titanium is one of the materials needed and is in short supply, is classified as "critical," and would be difficult for us to obtain.

And the company in your district was RMI you said?

Mr. TRAFICANT. My understanding, Mr. Spence, is that there was an adequate domestic market and supply, but it was the position of the United States at that particular point to, in fact, pursue a purchase outside the antidumping laws as we see them. I would also like to interject that I believe it was during Nixon's administration, they had sold off some of the national defense stockpile.

If I am not mistaken, and records can reflect this, and I am sure the chairman might remember or recall, cobalt was sold by the United States from its national defense stockpile for less than $5 a pound. Ultimately, within a period of 1 year or 18 months, I cannot give you the exact timeframe, cobalt was selling for approximately $45 to $50 a pound on the marketplace.

Now, I am saying that if we have specific restraints on the national defense stockpile, and once it gets down so low it causes America to have an opportunity to buy or, on the other hand, if it gets so high America could then sell. Now we are playing ping pong with the national defense stockpile, which is not the intent of Congress, and clearly violates the policy let alone the fiber of the Stockpiling Act.

Mr. SPENCE. I agree with you.

Mr. TRAFICANT. So titanium, from what I understand, was readily available from domestic producers, there was an adequate supply in America. That is my major concern.

Mr. SPENCE. I want to preserve it, that is all.

Mr. TRAFICANT. I do too.

Mr. BENNETT. Any other questions of this witness? General Blaz?

Mr. BLAZ. Jim, I enjoy your assertiveness, as usual. Let me ask you a question, please. Are there any other districts that have the same kind of titanium industry in addition to yours?

Mr. TRAFICANT. Absolutely; from what I understand, California has quite an investment and the State of Washington, the Western States. This is not a parochial project. It affects all of America.

Mr. BENNETT. It used to be that Florida produced a lot of titanium.

Mr. TRAFICANT. Yes.

Mr. BENNETT. I do not know if they do now, but all over my district there are lakes and mountains made by the titanium mining industry that was there years ago. I think that down near Orlando perhaps they still mine titanium.

It is a strange metal, you know. It is found in absolutely pure white-looking sand. And yet, it itself is black. And it has a wonderful quality of being very light and very tough. The Russians, you know, make their best submarines out of titanium so they can go very much deeper than our submarines go——

Mr. TRAFICANT. Yes.

Mr. BENNETT [continuing]. Because of the fact they make the hulls out of titanium.

Mr. TRAFICANT. Very, very light though.

Mr. BLAZ. And one other question, please, sir. What is the size of the industry, the number of employees? What would this be in terms of ratings in your district?

Mr. TRAFICANT. Well, as far as my district is concerned RMI Co. boasts 100-percent U.S. production of titanium sponge, ingot, and mill products, and employs 1,500 people in Niles, OH. RMI is progressive in the defense aerospace and commercial aerospace as well as industrial applications as geothermal and petrochemical uses. It is a solid corporation that we have. These types of practices by our Government make it almost impossible for them to compete.

So it is not just the immediate impact of the loss of the number of jobs, it is just that the practice could erode the industrial base they do have.

Mr. BLAZ. Erode the industrial capabilities.

Mr. TRAFICANT. Yes.

Mr. BLAZ. And in time of defense need we would not have it?

Mr. TRAFICANT. And maybe this practice drives some of these types of good industries that serve Americans out of business. Certainly in a critical time of need they must be available if that call ever came about. In the long run, these practices could lead to that.

Mr. BLAZ. Thank you very much.

Mr. BENNETT. Any other questions?

Mr. ORTIZ. I think my good friend and colleague has made a very enlightening statement. And I think that maybe we should have the staff work with him and see what we can come up with.

Of course, us Texans have looked at the way to bring the deficit down, and this is to tax foreign oil being imported. And I hope this can be done.

Thank you for your testimony.

Mr. TRAFICANT. Thank you, Mr. Ortiz.

Mr. BENNETT. You made a very fine statement both on the specific problem of titanium in your district and also upon the general attitude, view of the stockpile. And we appreciate very much your being here.

Mr. TRAFICANT. Thank you, Mr. Chairman.

Mr. BENNETT. All right, the next witness will be Alexander Trowbridge who is president of the National Association of Manufacturers. It is a great organization.

STATEMENT OF ALEXANDER B. TROWBRIDGE, PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. TROWBRIDGE. Thank you, sir.

Mr. Chairman, members of the committee, I am Alexander Trowbridge, president of the National Association of Manufacturers. And I am very grateful to you for this chance to appear before the committee to have the opportunity to comment on the status and management of our national defense stockpile and to offer suggestions and recommendations on proposals to codify stockpile goals and streamline the management of its assets, as in H.R. 3743.

My testimony is longer than I plan to speak, Mr. Chairman, and I am going to excerpt from it and submit the entire thing for the record.

Mr. BENNETT. Without objection it will be included in the record.

Mr. TROWBRIDGE. I am deeply pleased to appear with Simon Strauss, whose reputation in this area, as you have said, is absolutely enormous after years of expertise on it. As a matter of fact, my first exposure to the stockpile was when I was serving as Assistant Secretary of Commerce and Secretary of Commerce from 1965 to 1968. We were selling copper and aluminum to keep the price down and to manipulate all kinds of economic functions. And Simon Strauss was one of the more level heads that prevailed at that time, and still does. And I recommend strongly, as you have said, his expertise for this particular subject.

We, within NAM's broad constituency, have a concern over the stockpile policies, but it is still largely seen as a side bar to the larger issue of America's reliance on foreign supplies of critical and strategic minerals and materials. This is unfortunate, I think, because the stockpile itself is an important link in the chain which constitutes our national security. And the stockpile today remains a misunderstood, overlooked, and manipulated Government asset, versus the national defense insurance policy that it was intended to be.

It is not surprising. The destructive capacity of the world's nuclear arsenals is absolutely staggering to contemplate. But the national defense stockpile exists for the contingency of a conventional war, as you said, containing materials "sufficient to sustain the United States for a period of not less than 3 years in the event of a national emergency."

Because of our reluctance to focus on this type of conflict, the stockpile is somewhat of a defense analyst's orphan child because stockpile materials are so far upstream in the manufacturing process. We read about the development of sophisticated armaments, see the prototypes of the B-1, or hear tidbits of information about the Stealth bomber, for instance, but it is difficult for some to understand that the component parts for these technologies are basically derived from minerals, minerals which are strategic and thus belong in the stockpile.

It is no secret that the United States presently imports 50 percent or more of 37 strategic minerals necessary to American manufacturers. The ultimate stability of the supply sources is necessarily tied to the political climate within the exporting country, the geographic location of the given supplier nation, or the supplier's political attitude toward the United States, and the wealth of minerals deposits within the supplier nation.

As has been repeated time and time again, the great, known, geological storehouses of critical minerals—chromium, cobalt, platinum, vanadium, and manganese—lie within the borders of nations of Southern Africa—not exactly beacons of political stability. The Soviet Union, also a great storehouse of minerals, is nearly mineral self-sufficient.

But supply sources aside, our mineral dependencies could also be exacerbated in times of war or national emergency by simple transportation problems. And these have been mentioned earlier this morning. At least 95 percent of our strategic imports arrive on foreign ships. And the U.S. merchant marine is shriveling. In 1984, the U.S. merchant fleet, U.S.-flag merchant fleet, private and Government, numbered 788 vessels. And as of 1 year ago, only 401 of these 788 were still listed as active. Additionally, strategic choke points in waterways around the world could be used to cut us off from supplies.

It seems to us that it is very important to revisit briefly the rationale for maintaining the stockpile, to ascertain the present-day situation of our imported minerals vulnerability. Constant reevaluation is necessary for determining the type, the quantity, and quality of materials to be stocked, and to evaluate the type of management review that is necessary to maintain a state of the art minerals stockpile.

Looked at from a broad perspective, the stockpile should represent an adjunct Government effort to diversify mineral and material sources, and supplement existing supply capabilities in time of emergency.

Historically, however, the stockpile is used for many other purposes, as we all know. Over the years the goals have been juggled, reset, and the stockpile otherwise manipulated as an economic tool to fight inflation, to break strikes, to balance the Federal budget deficit. For example, President Johnson, as I mentioned, threatened to release aluminum from the stockpile to break a strike and prevent undue price increases. I can remember that that was essentially the Council of Economic Advisers' and the Budget Director's recommendation.

The Nixon administration initiated a major sale of stockpiled goods to generate revenues.

A July 8, 1985, proposal from the White House concerning stockpile modernization is tied to a 1-year wartime scenario, and essentially reduces the stockpile goals by 96 percent. It proposes to sell off assets worth $2.5 billion over the next 5 years.

While we question the drastic nature of these goal reductions, it is the proposed sale of stockpile materials that is of main concern to minerals producers and consumers. These constant revisions in basic stockpile assumptions upset market forces, and with adverse consequences for materials producing and consuming industries alike.

Platinum and platinum group metals are good examples. The PGM's consist of six closely related metals: platinum, palladium, ruthenium, rhodium, iridium, and osmium, among the scarcest of the metallic elements. These so-called noble metals are used in the refining of high-octane gasoline, in the manufacture of pharmaceuticals, polyester fibers, fiber-reinforced plastics, textiles, electric contacts, spark plugs, ship hulls, jet aircraft. And 93 percent of our needs are imported from South Africa and the Soviet Union. A 7-month supply is held in the current stockpile inventory.

The White House modernization proposal chooses to eliminate the platinum goal and would dispose of the current inventory. Besides the questionable rationale behind the proposed goal elimination, the threatened sale of PGM's from the stockpile could affect the diversity of supply sources for years to come.

A good example involves the Stillwater Mining Co., which is in the process of bringing onstream the only significant economic source of platinum and palladium metals discovered and developed to date in the United States. Proposed policies to eliminate PGM's from the stockpile and sell off quantities over the next 5 years put this project in jeopardy, due to price disruptions in the world market that would be caused by even a minimum influx of stockpile metal. The end result: Foregone domestic employment, continued overseas sourcing, and increased vulnerability due to import dependencies.

Through initiatives of this committee, however, action was taken to preclude the White House goal reduction or asset sale proposal from occurring before October 1, 1986. Considering the scope of the proposed alterations in goals and inventory, NAM endorses this congressional action because it allows further analysis to take place prior to enacting any recommendations of the White House/National Security Council July 8, 1985 proposal.

Reported administration plans to sell off major quantities of stockpile materials in fiscal year 1987 stress the need for urgent attention to stockpile management procedures in the coming months.

Obviously, a stockpile management framework is necessary that would eliminate the political and budgetary overtones from its management and goal setting. As we interpret it, H.R. 3743 would tie goal-setting proposals to the Congress and transfer management to the Department of Defense. The bill has merit if it would steer us toward a rational set of apolitical, nonbudgetary stockpile parameters. While we are certainly sympathetic to the intent of H.R. 3743, we are not totally convinced that it would be effective.

NAM believes that the goal setting should be a function of a complex set of parameters including import dependence and emerging high technology needs for mobilization. We question whether any one entity has the expertise to analyze completely the variables involved. And the goal-calculating formula is presently a computerized process requiring the expertise of an array of Federal agencies utilizing computer models requiring numerous classified assumptions.

We question whether these complexities can be addressed by computers, Congress or the executive branch alone. However, with the help of this committee and with proper advisory panels from the private sector, Congress could conceivably guide us down a road where enough product for each critical stage in the manufacturing process is insured.

Congress could play an important oversight role in the management of the stockpile, along with the executive branch and industry, to insure a properly modern and usable result. Officially, NAM still endorses the formation of a stockpile commission or corporation, along the lines of the recommendation made last year by the Mott Committee at the Department of the Interior. Specifically, as we envision it, the corporation would act as both the goal-setting entity and manager of acquisitions and disposals for the stockpile.

The membership would include a chairman and four directors appointed by the President. The members could be appointed on a rotating 3- or 4-year basis and could include legislative branch representation. Goal setting would be reviewed by law every 2 years. Goals should then be computed on a three-tier basis of criticality, based on strategic need, import dependence, and available domestic production capability.

Stockpile quality would be assessed on a recurring basis to insure that high-quality and readily usable materials are available. Manufacturing input would be sought through formal advisory panels. And barter, endorsed by NAM, would also be an option available to meet goal requirements.

Regardless of the body which sets the goals, how the goals are achieved or the agency which manages the stockpile, it must be viewed as:

One, An important element of national security planning;

Two, An adjunct to supply diversification in times of national emergency;

Three, Strictly as a national defense priority, not as a budgetary asset that would disrupt markets; and

Four, Conforming to strict quantity and quality performance standards as mandated by current manufacturing technologies.

Anything less seems to us to seriously compromise national security.

As a final note, Mr. Chairman, I would like to remark that, as the proper committees of NAM further analyze H.R. 3743, and as the need for stockpile management reform becomes clearer from these hearings, we certainly would be pleased to revisit this issue with you at any point at your convenience.

Thank you very much, sir.

[Statement of Mr. Trowbridge follows:]

PREPARED STATEMENT OF ALEXANDER B. TROWBRIDGE

Good morning, Mr. Chairman. My name is Alexander B. Trowbridge, and I am president of the National Association of Manufacturers (NAM). NAM is a voluntary business association of over 13,500 corporations, large and small, located in every state. Members range in size from the very large to over 9,000 smaller manufacturing firms, each with an employee base of less than 500. NAM member companies employ 85 percent of all workers in manufacturing and produce over 80 percent of the nation's manufactured goods. NAM is affiliated with an additional 158,000 businesses through its Associations Council and the National Industrial Council.

I would like to thank the committee for today's opportunity to comment on the status and management of our National Defense Stockpile, and to offer suggestions and recommendations on proposals to codify stockpile goals and streamline the management of its assets, as in H.R. 3743. NAM represents many small companies and large corporations that comprise America's defense industrial base, as well as producers and processors of our domestic mineral resources. Therefore NAM policies reflect the views of a large cross-section of American industry. I believe it is important to address both the user and producer perspective in any discussion of defense mobilization and the adequacy of a domestic raw materials base in the event of a national emergency.

Even within NAM's broad constituency, concern over stockpile policies is still largely seen as a sidebar to the larger issue of America's reliance on foreign supplies of critical and strategic minerals and materials. This is unfortunate, because the stockpile is itself an important link in the chain which constitutes national security. In an article on this subject in a recent Reserve Officers Association, National Security Report, I stated that "in the current pecking order of national defense priorities, it is probably safe to say that the National Defense Stockpile ranks near the bottom." The stockpile today remains a misunderstood, overlooked, and manipulated government asset, versus the national defense insurance policy it was intended to be. This is not surprising. The destructive capacity of the world's nuclear arsenals is staggering to contemplate. But the National Defense Stockpile exists for the contingency of a conventional war, containing materials "sufficient to sustain the United States for a period of not less than three years in the event of a national emergency." While we hope to never again have a conflict of the duration and magnitude of World War II, the idea of a viable defense stockpile is still a valid one. Mr. Chairman, I believe you stated the rationale best in your recent interview with Seapower magazine: "the greatest challenge our country has today . . . is the very simple decision of not deciding you are going to win a conventional war in Europe . . . because you are going straight for nuclear war, and there is no way to win it and consequently it is going to be a disaster for every tribe."

Besides our reluctance to focus on this type of conflict, the stockpile is somewhat of a defense analyst's orphan child because stockpile materials are so far "upstream" in the manufacturing process. We read about the development of sophisticated armaments, see prototypes of the B1, and hear tidbits of information about the sophistication of the stealth bomber but it is difficult for some to understand that the component parts for these technologies are basically derived from minerals. Minerals which are strategic, and thus belong in the stockpile.

It is no secret that the United States presently imports 50 percent or more of 37 strategic minerals necessary to American manufacturers. The ultimate stability of the supply sources is necessarily tied to the political climate within the exporting country, the geographic location of a given supplier nation, the suppliers' political attitude toward the United States, and the wealth of minerals deposits within the supplier nation. As has been repeated time and again, the great known geological storehouses of critical minerals—chromium, cobalt, platinum, vanadium and manganese—lie within the borders of the nations of Southern Africa—not exactly beacons of political stability. The U.S.S.R., also a great storehouse of minerals, is nearly mineral self-sufficient. The Soviets need only import significant quantities of seven critical minerals. Their sources of supply? Allies such as Hungary, Yugoslavia, North Korea and Bulgaria.

Supply sources aside, our mineral dependencies could also be exacerbated in times of war or national emergency by simple transportation problems. At least 95 percent of our strategic imports arrive on foreign ships. And the U.S. Merchant Marine is shriveling. In 1984, the U.S. Merchant fleet, private and government, numbered 788 vessels. As of a year ago, only 401 of those 788 were still listed as active. Additionally, strategic "choke points" in waterways around the world could be used to cut us off from supplies.

It is important to re-visit briefly the rationale for maintaining a strong National Defense Stockpile, and to ascertain the present-day situation of our imported minerals vulnerability. Constant re-evaluation is necessary for determining the type, quantity and quality of materials to be stocked, and to evaluate the type of management review that is necessary to maintain a "state-of-the-art" materials stockpile. Looked at from a broad perspective, the stockpile should represent an adjunct government effort to diversify mineral and material sources, and supplement existing supply capabilities in time of emergency.

Historically, however, the stockpile has been used for other purposes. Over the years goals have been juggled, re-set and the stockpile otherwise manipulated as an economic tool to fight inflation, break strikes, and balance the federal budget deficit. For example, President Johnson threatened to release aluminum from the stockpile to break a strike and prevent undue price increases. The Nixon Administration initiated a major sale of stockpiled goods to generate revenues. A July 8, 1985 proposal from the White House concerning stockpile "modernization" is tied to a one-year wartime scenario, and essentially reduces stockpile goals by 96 percent. Additionally, it proposes to sell off stockpile assets worth $2.5 billion over the next five years. While we question the drastic nature of these goal reductions, it is the proposed sale of stockpile materials that is of main concern to minerals producers and consumers. These constant revisions in basic stockpile assumptions upset market forces, with adverse consequences for materials producing and consuming industries alike.

Platinum and platinum group metals (PGMs) are good examples. The PGMs consist of six closely related metals: platinum, palladium, ruthenium, rhodium, iridium, and osmium, among the scarcest of the metallic elements. These so-called "noble" metals are used in the refining of high octane gasoline, in the manufacture of pharmaceuticals, polyester and nylon fibers, fiber reinforced plastics, textiles, electrical contacts, spark plugs, ship hulls and jet aircraft. Ninety three percent of our needs are imported from South Africa and the U.S.S.R. A seven month supply is held in current stockpile inventory.

The White House modernization proposal chooses to eliminate the platinum goal and would dispose of the current inventory. Besides the questionable rationale behind the proposed goal elimination, the threatened sale of PGMs from the stockpile could affect the diversity of supply sources for years to come. A good example involves the Stillwater Mining Company, which is in the process of bringing on-stream the only significant economic source of platinum and palladium metals discovered and developed to date in the United States. Proposed policies to eliminate PGMs from the stockpile and sell off quantities over the next five years put this project in jeopardy, due to price disruptions in the world market that would be caused by even a minimum market influx of stockpile metal. The end result: foregone domestic employment, continued overseas sourcing, and increased vulnerability due to import dependencies.

Through initiatives of this committee, however, action was taken to preclude the White House goal reduction or asset sale proposal from occurring before October 1, 1986. Considering the scope of the proposed alterations in goals and inventory, NAM endorses this congressional action because it allows further analysis to take place prior to enacting any recommendations of the White House/National Security Council July 8, 1985 proposal. Reported administration plans to sell off major quantities of stockpile materials in FY'87 stress the need for urgent attention to stockpile management procedures in the coming months.

H.R. 3743 AND RECOMMENDATIONS

Obviously, a stockpile management framework is necessary that would eliminate these political and budgetary overtones from its management and goal setting. As we interpret it, H.R. 3743 would tie goal setting proposals to the Congress and transfer management to the Department of Defense. The bill has merit if it would steer us toward a rational set of apolitical, non-budgetary stockpile parameters. While we are certainly sympathetic to the intent of H.R. 3743, we are not convinced that it would be effective.

NAM believes that goal setting should be a function of a complex set of parameters including import dependence and emerging high technology needs for mobilization. We question whether any one entity has the expertise to analyze completely the variables involved. The goal calculating formula is presently a computerized process requiring the expertise of an array of Federal agencies utilizing computer models requiring numerous classified assumptions.

But the ultimate burden of defense mobilization falls on the manufacturing sector of the economy, as well as the raw materials producers and processors. By the same token computer models are incapable of considering that single raw material gaps in a manufacturing process can shut it down.

It must also be stressed that domestic ferroalloys, specialty steel, and die-casting capabilities in this country have suffered a marked decline over the past five years. Domestic specialty materials producers, the glass ceramics industry for example, are also turning to foreign sourcing for lack of domestic suppliers. The reasons for these declines are numerous, but include subsidized foreign competition, our own strict environmental laws, depletion of domestic ore bodies (and the concurrent lack of exploration for new ones), higher processing costs, and tax disincentives. Some experts think we're crying "wolf", and predict that advanced ceramics, composites and plastics will one day replace cobalt, chrome, tungsten, chromium and platinum, thereby reducing import vulnerability, making current forms of stockpiling obsolete. Yet given present trends, the specialty fabricators for these high tech materials will also be operating overseas, again placing domestic manufacturers in a vulnerable position. We question whether these complexities can be addressed by computers, Congress or the Executive Branch alone. However, with the help of this committee and with proper advisory panels from the private sector, Congress could conceivably guide us down a road where enough product for each critical stage in the manufacturing process is insured.

Congress could play an important oversight role in the management of the stockpile, along with the Executive Branch and industry, to insure a properly modern and usable result. Officially, NAM still endorses the formation of a stockpile commission or corporation, along the lines of the recommendation made last year by the Mott Committee at the Department of the Interior. Specifically, as we envision it, the corporation would act as both the goal-setting entity and manager of acquisitions and disposals for the stockpile. The membership would include a chairman and four directors appointed by the President. The members could be appointed on a rotating three or four year basis and could include legislative branch representation. Goal setting would be reviewed by law every two years. Goals should then be computed on a three tier basis of criticality, based on strategic need, import dependence, and available domestic production capability. Stockpile quality would be assessed on a recurring basis, to insure that high quality and readily usable materials are available. Manufacturing input would be sought through formal advisory panels. Barter, endorsed by NAM, would also be an option available to meet goal requirements.

Regardless of the body which sets goals, how the goals are achieved or the agency which manages the stockpile, it *must* be viewed as: (1) an important element of national security planning, (2) an adjunct to supply diversification in times of national emergency, (3) strictly as a national defense priority, not as a budgetary asset that could disrupt markets, (4) conforming to strict quantity and quality performance standards as mandated by current manufacturing technologies.

Anything less compromises national security.

As a final note, Mr. Chairman, I would like to remark that, as the proper committees of NAM further analyze H.R. 3743, and, as the need for stockpile management reform becomes clearer from these hearings, we would be pleased to re-visit this issue with you through written recommendations. Thank you.

Mr. **Bennett**. Thank you very much for coming here. And I gather that you view the so-called supplemental reserve proposed by the administration as a likely source of market disruption just by its creation and uncertain duration. How serious do you think this overhang of supplies could affect the market of those materials?

Mr. TROWBRIDGE. I am not entirely sure what the impact would be in specific terms, Mr. Chairman. But, I think, it is true to say that the existence of such an overhang, a quantity of materials that if they were treated as we now treat the stockpile, easily disposable, dump on the market, uncertainty being applied to the criteria used, it would seem to me this would be a very deleterious effect on the marketplace, both domestic and overseas, because many of these materials, as you remarked, come from friendly developing countries whose economies depend heavily on a stable price mechanism for their commodities. This element of uncertainty, I think, would be, would be dangerous.

Mr. BENNETT. Any questions from any other members?

Mr. BLAZ. May I ask a question, Mr. Chairman?

Mr. BENNETT. Yes. General Blaz.

Mr. BLAZ. Since we did not have a chance to ask Mr. Strauss a question earlier, I wonder if I could ask him in view of his background if he shares your view on the question of platinum group metals.

Would you care to comment on that?

Mr. STRAUSS. Yes, absolutely. I agree entirely with what Mr. Trowbridge has said. There is the possibility of a small production of platinum and palladium in the State of Montana, to which you referred. But if I were one of the investors looking into that and if I were aware of the possibility that the Government was going to sell all of its present holdings of platinum and palladium—and, incidentally, that property will produce much more palladium than it will platinum—it would make a question whether I wanted to proceed with the investment.

So precisely the things that Mr. Trowbridge has been saying regarding the uncertainty that this constantly changing stockpile program places on industry is likely to defer the development of what could be a significant domestic resource.

Mr. BLAZ. Thank you, Mr. Strauss.

Mr. STRAUSS. Thank you, sir.

Mr. BENNETT. OK, any other questions of this witness?

[No response.]

Mr. BENNETT. There being none, we certainly appreciate your coming.

Mr. TROWBRIDGE. Thank you, Mr. Chairman.

Mr. BENNETT. And the next witness is Admiral Mott.

And they tell me that is a vote. I am a little querulous about it because I do not see the other light up there. I do not think it is correct. I think there are just two lights on that are part of the three bells. I think that is correct.

STATEMENT OF ADM. WILLIAM C. MOTT, USN [RET.], CHAIRMAN, NATIONAL STRATEGIC MATERIALS AND MINERALS PROGRAM ADVISORY COMMITTEE, ACCOMPANIED BY SIMON D. STRAUSS, CHAIRMAN EMERITUS, MINERALS AVAILABILITY COMMITTEE, AMERICAN MINING CONGRESS; DR. TIMOTHY W. STANLEY; AND RICHARD C. SNYDER

Admiral MOTT. Mr. Chairman, may I ask that three members of my committee sit up here with me?

Mr. BENNETT. Yes. You surround yourself with them if you feel safer and more protected.

Admiral MOTT. You might ask technical questions.

Mr. BENNETT. All right, you must come forward.

Admiral MOTT. Mr. Chairman, you said I am a member of the National Strategic Materials and Minerals Program Advisory Committee, and that title is so long that it is known as the Mott Committee, because my name only has four letters in it.

Mr. BENNETT. Well, I am going to say before you get started that there is nobody anywhere in Government that has given more thought to this. There is nobody more sincere in your effort to solve it, or brighter or more ingenious. You have all the qualities to find answers to this.

So whatever you decide you want to do is going to have a great impact upon us.

Admiral MOTT. Well, thank you, sir.

I might say that I did not want this job. When Judge Clark asked me to take it I said I was too old. And he said,

> I would not use that excuse if I were you, Bill, because I had dinner with the President last night and he noticed you were born the same year he was, and he takes a very dim view of anybody saying that he is too old to do anything.

We made some 15 recommendations to the Secretary of the Interior to whom we are an advisory body. Sometimes those recommendations went beyond the capacity of the Secretary of the Interior to implement. For instance, Mr. Bustamante asked a question about the reliability of Mexico for minerals. Our committee addressed this subject, and we recommended that the Secretary of State should negotiate an agreement, an executive agreement with both Canada and Mexico with respect to the supply of materials.

Dave, you might want to give him a copy of that recommendation if you have it.

[The recommendations referred to are printed below:]

NOVEMBER 13, 1984.

RECOMMENDATION

The National Strategic Materials and Minerals Program Advisory Committee (NSMMPAC) recommends that the Secretary urge the Secretary of State, in collaboration with other appropriate officials, to reactivate the Joint [U.S.-Canadian] Industrial Mobilization Committee.

NSMMPAC further recommends that the reactivated Committee be charged to develop specific plans for allocating strategic minerals and material supplies and processing facilities between the United States and Canada to meet mutual mobilization needs.

NSMMPAC also recommends that, inasmuch as no formal arrangement exists for similar joint planning between the United States and Mexico, the Secretary recommend to the Secretary of State that the feasibility of such an agreement be explored.

Adopted 11-15-84.

BACKGROUND

Mobilization planning, including that for minerals and materials requirements, usually assumes that in the event of a defense emergency the United States would have ready, essentially unrestricted access to raw materials and processing facilities throughout North America—including Canada and Mexico. This is a highly problematical assumption that ignores (1) the obligation that Canada may have to other commonwealth nations in the event of a threat; (2) some uncertainty about the response of Mexico to a security threat in this hemisphere, especially given Mexico's proximity to hostile bases in Cuba and its susceptibility to mischief originating in central America; and (3) the absence of any active, formal arrangements between the U.S. and Canada or Mexico for joint mobilization planning and execution.

In 1949 the U.S. and Canadian governments signed an agreement (attached) for coordinating industrial mobilization planning; however, the Joint Industrial Mobilization Committee created in this agreement is presently defunct, and has been so since the Korean conflict era.

Clearly it would be in the common interest of all three governments to plan jointly for mobilization needs. For specific purposes such as defense stockpile goals setting, this would permit either the validation of current assumptions or the development of new assumptions about how much each nation would contribute to the other(s) in response to a mobilization event.

JOINT INDUSTRIAL MOBILIZATION COMMITTEE AGREEMENT BETWEEN THE UNITED STATES OF AMERICA AND CANADA

The American Ambassador to the Canadian Secretary of State for External Affairs

AMERICAN EMBASSY,
Ottawa, Canada, April 12, 1949.

No. 93

EXCELLENCY:

I have the honor to inform Your Excellency that the common interests of Canada and the United States in Defence, their proximity and the complementary characteristics of their resources clearly indicate the advantages of coordinating their plans for industrial mobilization, in order that the most effective use may be made of the productive facilities of the two countries.

The functions of the Department of Trade and Commerce and the Industrial Defense Board in Canada and those of the National Security Resources Board and the Munitions Board in the United States suggest that, for the present, it would be appropriate to use these Agencies to assist the two Governments in coordinating their Industrial Mobilization Plans.

Therefore, my Government wishes to propose that the two Governments agree:

(a) That a Joint Industrial Mobilization Committee be now constituted consisting, on the United States side, of the Chairman of the National Security Resources Board and the Chairman of the Munitions Board and, on the Canadian side, of the Chairman of the Industrial Defense Board and a Senior Official of the Department of Trade and Commerce:

(b) That the Joint Committee:

(i) Exchange information with a view to the coordination of the plans of the United States and Canada for Industrial Mobilization;

(ii) Consider what recommendations in the field of Industrial Mobilization planning, in areas of common concern, should be made to each Government;

(iii) Be empowered to organize Joint Sub-Committees from time to time to facilitate the discharge of its functions;

(iv) Be responsible for cooperation with the Permanent Joint Board on Defense on matters of Industrial Mobilization.

If your Government is agreeable to the above Proposals, it is understood that this Note, together with your Note in reply agreeing thereto, shall constitute an agreement between our two Governments which shall enter in force on the date of your reply and shall remain in force indefinitely subject to termination by either Government at any time on giving six months' notice.

Please accept, Excellency, the renewed assurances of my highest consideration.

LAURENCE A. STEINHARDT

His Excellency the Honorable
The SECRETARY OF STATE
FOR EXTERNAL AFFAIRS,
Ottawa.

63 STAT 2331; TIAS 1889-6 BEVANS 486; 206 UNTS 241

Effected by Exchange of Notes Signed at Ottawa April 12, 1949
Entered into force April 12, 1949

The Canadian Secretary of State for External Affairs to the American Ambassador

DEPARTMENT OF EXTERNAL AFFAIRS CANADA

OTTAWA, *April 12, 1949.*

No. 113
EXCELLENCY,

I have the honor to acknowledge the receipt of Your Excellency's note No. 93 of April 12, 1949, in which you inform me that the Government of the United States of America wishes to propose that our two Governments agree:

(a) that a Joint Industrial Mobilization Committee be now constituted consisting, on the United States side, of the Chairman of the National Security Resources Board and the Chairman of the Munitions Board and, on the Canadian side, of the Chairman of the Industrial Defense Board and a senior official of the Department of Trade and Commerce:

(b) that the Joint Committee:

(i) exchange information with a view to the coordination of the plans of the United States and Canada to industrial mobilization;

(ii) consider what recommendations in the field of industrial mobilization planning in areas of common concern should be made to each Government;

(iii) be empowered to organize joint subcommittees from time to time to facilitate the discharge of its functions;

(iv) be responsible for cooperation with the Permanent Joint Board of Defense on matters of industrial mobilization.

2. I have the honor to inform Your Excellency that the Government of Canada concurs in the foregoing proposals and agrees that your Excellency's note and this reply shall constitute an agreement between our two Governments which shall enter into force on this day and shall remain in force indefinitely, subject to termination by either Government at any time on giving six months' notice.

Accept, Excellency, the renewed assurances of my highest consideration.

L B PEARSON,
Secretary of State for External Affairs.

His Excellency, The Hon. LAURENCE A. STEINHARDT,
Ambassador of the United States of America,
Embassy of the United States of America,
100 Wellington Street,
Ottawa.

Admiral MOTT. I am speaking as a private citizen with the members of my committee here to help me if I get in trouble. I am pleased to comment on the impact of the bill which you have introduced would have on improving the management of the stockpile. A brief look at the history of the stockpile—and we have had that this morning—should convince anybody with reason that it could be improved from what it has been in the past.

The first time, Mr. Chairman, I had the opportunity to examine stockpile issues was in 1980 when the strategic minerals task force, of which I was a member, made certain recommendations to Governor Reagan with respect to stockpile management. The task force was composed of some 24 experienced men, a wide spectrum of experience, from the mining industry, the user industry, academia, and the military. We made both long-term and short-term recommendations to Governor Reagan, some of which he implemented.

Mr. BENNETT. As President-elect.

Admiral MOTT. Yes, sir, that is correct.

Mr. BENNETT. He was then Governor.

Admiral MOTT. That is right.

Now, the task force concluded ab initio that the long history of the stockpile program is a complex area involving a succession of different concepts and management systems. These have led to neglect, political abuse, and general confusion—all of those points have been brought out already this morning.

And so, after exhaustive consideration the transition task force recommended the President should immediately appoint a task force of carefully selected Government and industry experts—and I emphasize that because the present task force, the present White House stockpile goals study which came out in July had absolutely no input from industry at all. It was purely a bureaucratic exercise. So we recommended that there should be an executive study of U.S. strategic stockpile strategy, goals, and management.

That study, we added, should reevaluate the concepts relating to stockpile targets—evaluate both the quality and quantity of current materials and establish priorities for eliminating, changing, upgrading and/or replacing inventories and—a system to depoliticize the stockpile.

What do I mean by that? Frankly, Senator McClure has already mentioned it. And I am glad he said you need to eliminate the bean counters, so that the idea does not come from me. The bean counters are the Office of Management and Budget. And we felt that they ought to be eliminated from the process because they really do not know anything about the subject.

The advisory committee which I now have the honor to chair, and which is comprised of an even broader spectrum of industry, academia and military—we have up here at this table Dick Snyder from TRW, a big user of strategic materials; we have Dr. Tim Stanley, who is both and economist and a lawyer who is the president of the International Economic Study Institute—because I do not understand economists I had to have one on the committee who could explain what they were talking about—and then, of course, Simon Strauss, who is known to all of us as Mr. Stockpile.

A copy of the recommendation that we made with respect to setting up a Government corporation to manage the stockpile actually came from a member of my present committee who we consulted, as we did you, Mr. Chairman, in 1980. And that was Jack Schmitt, who was then in the U.S. Senate. It was Jack Schmitt's idea that we should have a Government corporation to manage the stockpile.

I just wanted you to know what the genesis was.

So the position taken by our committee has since been endorsed, as you heard, by the American Mining Congress and many other private organizations, whereas, the other stockpile plan which was issued by the National Security Council has not been endorsed by any outside organizations that I know of, because there was no private sector input into that plan.

Now, I went to Judge Clark, Mr. Chairman, who was then my boss as Secretary of the Interior and who appointed me as chairman of this committee, and I knew that this plan for a Government corporation to manage the stockpile was in progress. I said to him "Judge," and he was a great listener, a great man to work for, "Do you want my committee to look into this? Do you want my committee to examine what is going on with respect to this study?" And he said, "Yes, I do, Bill."

So I said, "Well, then you will have to clear it at the White House." And he did clear it at the White House. And I appointed this task force of these very knowledgeable gentlemen to go and take a look at what was happening.

They came back to me with a devastating report about it. They criticized the assumptions. And they then came up with a plan as to how such a study should proceed. And I made that recommendation to Judge Clark.

And I might say that all of the recommendations that this committee has made to Secretary Clark and to Secretary Hodel have now been given to the new Critical Materials Council in the White House for consideration because some of them are outside the jurisdiction of the Secretary of the Interior. But he handed them over to the Council with his endorsement.

[The following information was received for the record:]

NOVEMBER 13, 1984.

RECOMMENDATION

The National Strategic Materials and Minerals Program Advisory Committee recommends that the National Defense Stockpile program be administered by a Government corporation having no other responsibilities than to secure and maintain an adequate supply of strategic and critical materials for defense and essential civilian purposes. The Committee expressly recommends that these purposes not include the conduct of stockpile commodity transactions for economic reasons (an "economic stockpile").

The function of the Government corporation should be only to administer the stockpile. Procurement goals for commodities in the stockpile should continue to be established by Government agencies responsible for National security.

The Committee further recommends that during transition to the new Stockpile management system there be no deferring of stockpile transactions duly arrived at through the established Annual Material Plan (AMP).

If this recommendation is approved, the Committee will prepare and submit to the Secretary a detailed implementation plan within six months.

Adopted 11-15-84

BACKGROUND

Almost 40 years of experience has demonstrated that putting the Stockpile program in the hands of agencies having multiple responsibilities (such as FEMA or GSA) will at times result in deferring and delaying of decisions on strategic and critical materials because (among other reasons) senior officials are preoccupied with other matters.

The stockpile today is far short of its goals, yet the budgetary processes involved resulted in only $185 million being made available in fiscal year 1985 for stockpile purchases. At this rate, 50 years will be required to reach stockpile goals. Uncertainty about purchase authority persists year after year under the present system.

In 1962, when the Kennedy Administration expressed the view that the stockpile was excessive, the then current value of all holdings was approximately $8 billion dollars. Since then, the aggregate disposals of materials declared surplus have netted the Government in excess of $8 billion dollars. Yet the most recent report of stockpile activities shows that inventories on hand as of March 31, 1984, had a value at current market of $10.9 billion dollars—this despite the fact that purchasing for the stockpile in the intervening 22 years has been extremely limited.

As the 1962-1984 experience indicates, due to inflation the Government in the long run has in the stockpile an asset whose value is likely to rise, whereas its expenditures for weapons and other purposes are subject to long-term obsolescence. We emphatically reject the principle of an "economic stockpile," and this recommendation should not be interpreted to advocate such a practice; however, it should be recognized that, unlike many articles that the Government purchases (motor vehicles, bombers, and buildings), most stockpile commodities are not subject to deterioration or depreciation. Accordingly, such commodities should be regarded and managed as assets.

If the stockpile program is put in the hands of a Government corporation (as was done during World War II, when it was handled through the RFC and its four wartime subsidiaries) the program will not be entangled in the annual budgetary process, although, of course, the program will continue to be subject to Administration and Congressional oversight. Long-term planning of both acquisitions and disposals will be facilitated. In addition, innovative financing options, possible for a corporation but unavailable to Government agencies, could be exercised to make stockpile transactions possible under the most favorable market conditions. This could include the expanded use of barter in stockpile transactions.

If the critical materials program were administered by a corporation, the Committee believes that it would operate in a business-like manner, free of much of the bureaucratic procedures which delay decisions and tend to deprive the Government of the opportunity to buy or sell at maximum advantage. Because the materials markets are volatile and sensitive to economic conditions, delay in decision-making can be expensive. Furthermore, such a corporation should be able to attract experienced, highly-qualified negotiators and managers who may not be available under the constraints of the civil service employment system.

In making this recommendation, the Committee is cognizant of the need for adherence to the broad scope of Administration desires (and Congressional intent as well). Yet experience with such programs as COMSAT, Fanny Mae, FRC, TVA, and other Government corporations demonstrates that such adherence is indeed capable of realization.

This recommendation is intended to argue only that efficient, sound, businesslike management of the stockpile is difficult under the present system in which decision-making authority is so widely distributed among disparate agencies with correspondingly disparate "missions." None of the foregoing discussion is intended to imply that the stockpile has been culpably mismanaged.

Defense Stockpile Goal Setting

RECOMMENDATION

The National Strategic Materials and Minerals Program Advisory Committee recommends that agencies charged with determining materials goals for the National Defense stockpile observe a procedure that includes the following steps to ensure that the goals provide an acceptable level of preparedness:

(1) consultation with expert representatives from Government and private sector materials and minerals producers, processors, end-users, and recyclers;

(2) evaluation of needs on a commodity-by-commodity basis, with emphasis on technological and not economic considerations;

(3) consideration of industrial and essential civilian needs as well as military-defense needs;

(4) thorough Government-wide and private sector review of current and emerging technology to enable sound judgments to be made about which stockpiled materials are obsolete (and should, therefore, be disposed of) and which materials—including those with little or no present commercial utility—should be added to the stockpile for defense purposes;

(5) broad review of the criteria used to determine stockpile goals to assure that they include: (a) reasonable assumptions about the level of austerity that Government should impose on its citizens to accommodate defense mobilization; (b) proper regard for historical experience during prior mobilizations; (c) allowance for the importance of maintaining civilian morale during a shift to a mobilization economy; (d) strict adherence to all existing laws applicable to the National Defense Stockpile.

Adopted 2-6-85

Admiral MOTT. Now, Mr. Chairman, we understand that the intent of H.R. 3743 is to eliminate the use of the national defense stockpile for, and I quote, "economic or budgetary purposes." And we could not more heartily endorse that intent.

But we have to ask you the question, sir, Will it really do the job even if you manage to persuade—and you are a very persuasive chairman—even if you manage to persuade the Department of Defense to accept the management responsibility?

The second problem that you are going to have to hurdle is that you do not get rid of the Office of Management and Budget if you turn it over to the Department of Defense.

A number of years ago when I appeared before this committee on this subject you had a member who kept quoting the Bible to me. And suddenly, after hearing some of the witnesses, he looked up and said, "Is there anybody in the room from the Office of Management and Budget?" And I said, "Well, no, Mr. Congressman, but I will quote the Bible back to you." I said, "The voices you have been hearing here today are the voices of Jacob, but the hand is the hand of Esau and Esau is not here, and very seldom appears." So that is the problem that you have.

Now, let me mention for a moment the great—I might almost say terrible—importance of stockpiles in case of conventional war, which is the scenario that we are facing today. This just issued biography of Stalin has a lot to say on the subject. Why bring up a biography of Stalin at this point? Well, for the simple reason that Stalin made a pact with Hitler in 1939. Why did Hitler make that pact? He wanted access to the Soviet stockpiles because Germany did not have the kind of materials that she needed to conduct the war.

Russia agreed to ship 1 million tons of grain, 900,000 tons of oil, 100,000 tons of chrome, 2.5 tons of platinum, in return for some machinery. And that was the deal in 1939 that Stalin made with Hitler.

This is a most remarkably well-researched biography which I am going to try to get a copy of for you, sir. I have just reviewed the proofs in my capacity as editor of the American Bar Association Intelligence Report. Every Member of Congress should read it.

Now, this little book which was just published called "Natural Resources in Soviet Foreign Policy" goes into the subject in even greater detail. It points out that in the Soviet Union they regard stockpiles as very important. In fact, they say they could not have won the war against Hitler if they had not had adequate stockpiles.

And they make the point in this book that the military thinking in the Soviet Union is just as emphatic in favor of stockpiles today as it was during World War II.

I am going to present a copy of this to you, Mr. Chairman. It is only 48 pages, but it is so well-researched it has 120 footnotes. And it is by a man——

Mr. **Bennett**. It can be useful.

Admiral **Mott**. Yes. It is by a Sovietologist in the State Department, believe it or not. And I think you will enjoy it.

Now, let me just mention that this book has set stockpile alarm bells ringing in Japan. And the reason it has done that is that it is one of the aims of Soviet foreign policy to try to wean Japan away from the West by guaranteeing to her minerals for her stockpile and petroleum. When the soviet foreign minister was in Japan recently he made that very point.

So recently there appeared at my door in Charlottesville a four-man Japanese television crew with their cameras and everything.

And I said to them,

> Well, what are you guys doing here all the way from Japan?

They said,

> Well, we represent Japanese Public Television. And we came here because of these two books that you published back in 1980 and 1981 about the necessity for having a stockpile. And we do not think Japan has the kind of stockpile that it ought to have.

By the way, they had two of these books translated into Japanese already, and the third one now being translated. They are going to try to convince the Japanese public, as you are trying to convince our public, and as Russia has already convinced itself, that it is absolutely necessary to have a stockpile of strategic and critical materials when you face the kind of scenario that we now face.

So I understand that the fiscal 1987 budget message calls for the elimination of the stockpile transaction fund, which currently is to be used only for stockpile purposes. Again, Mr. Chairman, I see the hand of Esau. And I also see you, sir, as Horatius at the legislative bridge. And I feel that you are going to put a stop to this some way or other.

I think H.R. 3743 is a step in the right management direction. But I trust you will forgive me if I prefer our committee's recommendation, which, by the way, was also the recommendation of the task force in 1980 which advised Governor Reagan.

Whenever you get outside industry into this they immediately say, "If you do not eliminate the bean counters you are going to be in trouble."

So while I think you have made a step in the right management direction, Mr. Chairman, I hope you will, as you said you would, consider the alternative.

Mr. BENNETT. Certainly will.

Admiral MOTT. And I have got these three experts up here who can answer any questions the members might have.

[Statement of Admiral Mott follows:]

PREPARED STATEMENT OF ADM. WILLIAM C. MOTT (USN-RET.)

Mr. Chairman and members of the Subcommittee on Seapower and Strategic and Critical Minerals of the H.A.S.C.: I am William C. Mott, R. Adm. U.S. Navy (ret.), Chairman of the National Strategic Materials and Minerals Program Advisory Committee, speaking as a private citizen for the 25 members of the Committee and not representing the views of the Department of the Interior. It is my pleasure to appear before you at Chairman Bennett's request, to testify on H.R. 3743 and the impact that bill, if passed into law, would have on improving the management of the stockpile. A brief look at the history of stockpile management should convince anyone that it could be improved.

The first time I had the opportunity to examine stockpile issues was in 1980 when the Strategic Minerals Task Force (of which I was a member) made certain recommendations to President elect Reagan with respect to stockpile management. The Task Force, which was comprised of some twenty four experienced men from the mining industry, the user industries, academia, and the military, made both short term and long term recommendations on the subject. The Task Force concluded, "ab initio" that: "The long history of the stockpile program is a complex area involving a succession of different concepts and management systems. These have led to neglect, political abuse, and general confusion . . . ."

And so, after exhaustive consideration the transition Task Force recommended that: "The President should immediately appoint a Task Force of carefully selected government and industry experts to conduct an Executive study of U.S. Strategic stockpile strategy, goals, and management." That study, we added, should "reevaluate the concepts relating to stockpile targets . . . evaluate both the quality and quantity of current materials and establish priorities for eliminating, changing, upgrading and/or replacing inventories and develop a system to depoliticize stockpile management."

What we meant by "depoliticization" was the establishment of a government corporation to do the management chores and incidentally, the elimination of the Office of Management and Budget from the process.

The Advisory Committee which I now have the honor to chair, and which is comprised of an even broader spectrum of industry, academia and the military came up with virtually the same recommendation, to wit: "The National Strategic Materials and Program Advisory Committee recommends that the National Defense Stockpile program be administered by a Government Corporation having no other responsibilities than to secure and maintain an adequate supply of strategic and critical materials for defense and essential civilian purposes." A copy of that recommendation with its supporting rational is attached hereto.

The position taken by our Committee has since been endorsed by the American Mining Congress and many other private sector organizations.

We understand Mr. Chairman, that the intent of H.R. 3743 is to eliminate the use of the National Defense Stockpile for "economic or budgetary purposes." But, will it really do the job, even if the Department of Defense accepts management responsibilities, when all statements of Defense witnesses before this Committee must be cleared by OMB? A number of years ago I asked a Defense witness, who shall be nameless, what he was going to say about the stockpile before this Committee. His answer was—"Well, Bill, I was going to say A until OMB told me I must say Z." So what you heard was the vote of Jacob—the hand was the hand of Esau and Esau was not present at the hearing but he's still around!

Let me mention for a moment the great—I might almost say terrible—importance of stockpiles in case of conventional war, which is the scenario we are facing. This just issued biography of Stalin by Alex de Jonge (published by Morrow) points out that one of the main reasons Hitler made a pact with Stalin in 1939 was to tap the Russian stockpiles of minerals, oil, and grain. The pact gave Hitler significant quantities of raw materials including one million tons of grain, 900,000 tons of oil, 100,000 tons of chromium, two and half tons of platinium, etc. (p.361)

This little book called Natural Resources in Soviet Foreign Policy published by my organization the National Strategy Information Center stresses the importance to the Soviets of peacetime raw materials planning for national security contingencies. It states that "Soviet military specialists note how victory in that (WWII) war was ensured in large part by the USSR's foresight in stockpiling food reserves and major strategic materials for military requirements:—And, the book continues "The Soviet military add that this stockpile lesson of WWII remains equally valid today!"

The book has sent stockpile alarm bells ringing in Japan. Just a few days ago a four man television crew from Japan arrived at my home in Charlottesville. When I asked what brought them they held up these two books translated into Japanese, NSIC published in 1980 and 1981, both of which related to dangerous minerals dependency. Japan is the most vulnerable industrial nation in the world and has suddenly awakened to the fact that she has an inadequate stockpile. The purpose of the National Public Television program partially filmed at my home is to awaken her people to the danger.

I understand the FY 1987 budget message calls for elimination of the Stockpile Transaction Fund as a separate revolving fund to be used only for stockpile purposes. Again, I see the hand of Esau. We hope you will stand at the legislative bridge like Horatius, Mr. Chairman, as you have so often in the past, to resist assaults on stockpile goals and management.

I think H.R. 3743 is a step in the right management direction but I trust you will forgive me if I prefer our Committee's recommendation for a separate Corporation. That recommendation, by the way, from a member of our Committee who formerly served in the U.S. Senate and it was strongly endorsed by a former member of this House, also a Mott Committee member.

I would be pleased to answer any questions you may have.

Mr. BENNETT. I guess the greatest concern I have about a separate organization is, is—well, there are two. One of them is after all they have to be appointed by somebody, and that person that appoints them can pretty well predict how things are going to occur. And that has been our problem in the past is that somebody who is not really very observeable can have an effect upon what happens in the disposition and the acquisition. That is one thing that worries me.

The other one is a new thing which I cannot believe is going to be long upon our scenery, the idea of selling all the Government corporations that have any value—that have any money aspects to them. I mean, that is a new way to balance the budget which I do not think in the long pull is going to have very many friends, because obviously if you sell them you have got to sell them to somebody who can buy them. And there are not too many people who can buy a $1 billion corporation. So they are bound to be very large interests, and they are bound to think they can make a lot of money out of it. And that means the Federal Treasury will lose that money they would have made.

So I cannot see where that is very much of a gain for anybody. But it is currently on the horizon for a lot of Federal facilities. And that does worry me. But I guess it worries me more that a strong President might just say, as strong Presidents have said in the past, like Mr. Nixon did, well, we are only going to have a 1-year war that we are going to provide for, and since it will be nuclear then we do not really have to have a stockpile at all. And if your assumptions run like that, if you are allowed to make assumptions like that you can end the whole stockpile program.

And, of course, we ended that specious reasoning saying in the law that the stockpile was to provide for not less than a war of 3 years. That is a matter of law, that is not a matter of anybody's discretion. Nobody can claim credit for that. That is just a law that we passed as the best expedient we could find to control the kind of silly thinking that would eliminate the stockpile. We just said it has got to provide for at least a 3-year war.

We also tried to get rid of the language the people had about 2½ wars and two wars at the same time. Well, you know, if you have two wars at the same time or 2½ wars at the same time you really just have one war of a wider expanse. So that is a silly thing to say because it makes people think that you are doubling the amount that you need for one war, when you are really just saying the war is broader in scope than you might want.

So I hope we have gotten rid of those problems.

Now, I am openminded, and the committee I think would be openminded to consider a separate corporation to manage the stockpile; but it does concern me how we would have control over it.

Of course, there are some things about it in Congress that concern me too because we do have parochialism here and we do have conflicts of interest here, but they are all very well scrutinized. In other words, if there is even an evil thought on the part of a Congressman it is well displayed because it is good news. And so we are not going to escape that kind of scrutiny.

We have done well with regard to the Military Construction Committee that way. And, with that example, we have had no bad examples that have happened. They had some bad examples when it was secret. But when it became public that all ended.

Admiral MOTT. Mr. Chairman, you bring up another point.

Mr. BENNETT. OK.

Admiral MOTT. I guess it is no secret to you that my task force of three here considered that study produced by the National Security Council to be vastly overclassified.

Are we in agreement on that? You are quite right, it should be brought out into the public view.

Mr. **Bennett**. The public ought to know about it. They ought to know that we get a lot of our maganese from Russia, for instance. And other things we indirectly get with Russian consent, which we may feel like is a matter of security for ourselves. But if we have a war with Russia how could we have any contentment with that source?

Admiral **Mott**. We might have to go to South Africa.

Mr. **Bennett**. South Africa is very complicated, as you know, I am sure.

Mr. **Strauss**. Mr. Chairman, I think that perhaps we have not been sufficiently specific in regard to the duties and responsibilities of this corporation that we have been talking about.

The corporation would not set the goals. The goals would be set by a formula or a Government organization. As your bill provides, it would be entirely consonant with setting up a corporation, that the goals need to be ratified by Congress.

Now, once those goals were established, the corporation, as such, would simply either buy the materials that were short or sell the materials that were surplus to those goals. It would not have the discretion to sell material which was short or to buy material that is already in surplus.

So the setting up a board of directors, assuming you had the reasonable cross section—labor might want to be represented, a Member of Congress might want to be on the corporation—for that corporation would not give them the authority to transgress on what you are concerned about, and that is, that we have got a stockpile that we really need.

Mr. **Bennett**. Has anybody ever drafted such a proposal?

Mr. **Strauss**. Well, the RFC for which I worked during World War II operated exactly in that way: we bought the materials that the War Production Board told us to buy. We did not go out and buy——

Mr. **Bennett**. Have you got a form that we could put in statutory form now?

Admiral **Mott**. Dr. Stanley, we approached this problem at one time, did we not?

Dr. **Stanley**. Yes; I think some, there has been drafting done. I am not sure it is ready yet.

Mr. **Bennett**. If there is a draft we would like to have it because we are trying to put this in the authorization bill, to show how openminded I am about it, since you all seem to think that a corporation is a way to go. If I could get something together that would be—I would be proud of and it would seem to work. But we cannot even debate it if we do not have that draft.

So we will try to see if we can get up such a draft.

Admiral **Mott**. Well, you can get a strong man like Mr. Volcker as chairman.

Of course this bill, sir, would allow the President to reenter in times of national emergency. This would just really be the management to prepare for the day when a national emergency came.

Mr. **Bennett**. I think the President has some—in times of national emergency could be relied upon to do what is in the interest of national security. I am not sure he could be relied upon in times other than that because most Presidents have failed that test.

Mr. **Strauss**. Well, Mr. Trowbridge gave you a specific example when he was in the Commerce Department. He alluded to the fact that during the Johnson administration both copper and aluminum were released from the stockpile really for economic purposes. In fact, the copper industry had tried to make a very modest increase in price at a time when the world price of copper was much higher than the domestic price.

Mr. Johnson did not like that and arranged for release of a quarter of a million tons of copper from the stockpile and the domestic producers had to roll back their price increase.

Mr. **Bennett**. Congressman Blaz wants to ask a question.

But before I say that, Mr. Traficant, and also in my remarks earlier, made reference to—Congressman Traficant—made reference to the fact that the present administration is somewhat guilty of this, too, because it has said it is going to violate the law. It does not say it is going to do that in so many words. But they say they are going to use these stockpiles for budgetary reasons and having no relationship to building the national defense stockpile.

So even a friendly administration which is as defense minded as this one is, has overlooked the great needs of this stockpile for additional accumulation. And the obvious thing is that the money that comes out of surplus sales should go back into acquiring the things you need, as the law has said.

Now, General Blaz, do you have a question?

Mr. **Blaz**. Thank you, Mr. Chairman.

Mr. Chairman, I learned a long time ago that by himself Admiral Mott would be a formidable person to deliberate with. When he is accompanied by an industrialist, an economist and Mr. Strauss, I know much better than to tangle with him. So I will just make a personal observation.

Time and tide has bleached your hair somewhat but it has not affected your vigor and vinegar. Because you really, you really do not remember me because I am singularly undistinguished in the legal profession, but one of the cherished possessions I have is a certificate saying that I graduated from your school of naval officers.

Admiral **Mott**. School of Naval Justice.

Mr. **Blaz**. Yes, sir; a long, long time ago. And watching you here I said, my goodness, I shall never endorse any kind of Social Security for this fellow because he defies us all.

It is such a pleasure. I have not seen you since that time in the fifties. And I hoped and I wanted to. But what a pleasure it is to see you here and what a joy it is to have the benefit of your wisdom and your interest.

Admiral **Mott**. Thank you very much, sir. Thank you.

Mr. **Blaz**. I was a marine, by the way, sir. Maybe that is part of the reason you——

Admiral **Mott**. You must remember Colonel Ospey then who was——

Mr. **Blaz**. Oh, indeed; yes, sir. You were my mentor, he was my tormentor.

Mr. **Bennett**. General Price has something to say at this point.

Admiral MOTT. By the way, Mr. Chairman, the author of this biography of Stalin is a good friend of mine named Alex de Jonge. And if you will promise to read a copy I will get an inscribed copy of this biography sent to you by the author.

Mr. BENNETT. I would love to have it.

I am reading "The Last Lion," about Churchill, which is a great book.

Admiral MOTT. This book takes both Churchill and Roosevelt, to whom I was an aide, apart; it makes the point that Stalin played them one against the other and walked off with the trophy.

Mr. BENNETT. I guess it got even worse when Tru--well, it was in the transition period to Truman that the problem occurred. Nobody's fault. Everybody tried to do what was right and best. But he was a fox, no doubt.

Admiral MOTT. Well, we basically did not understand what communism was about, what Stalin was about.

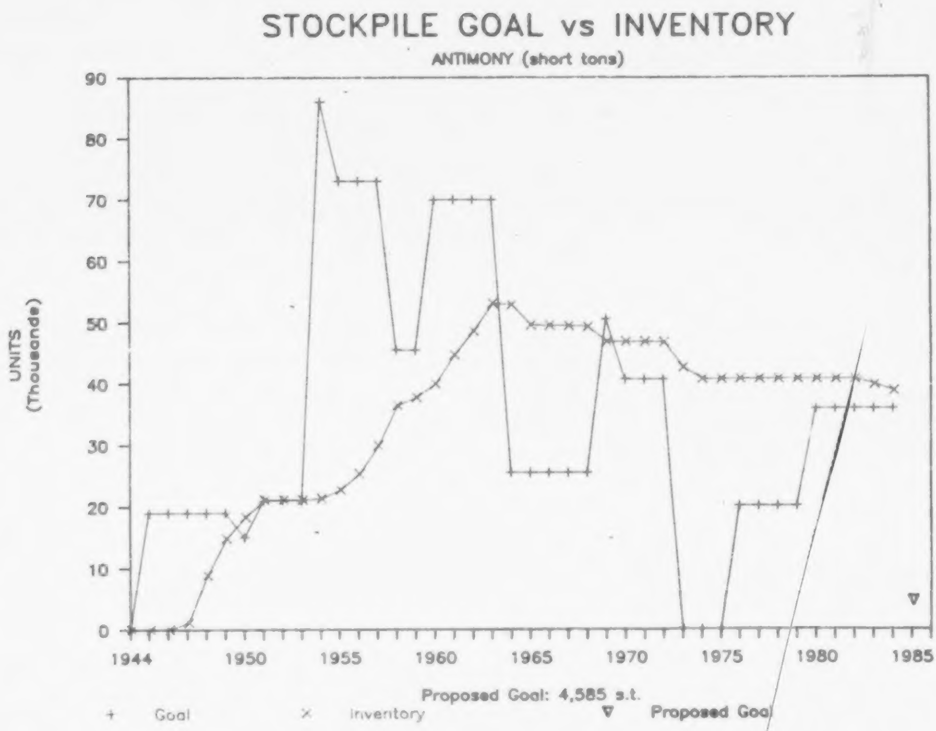
Excuse me. Dave.

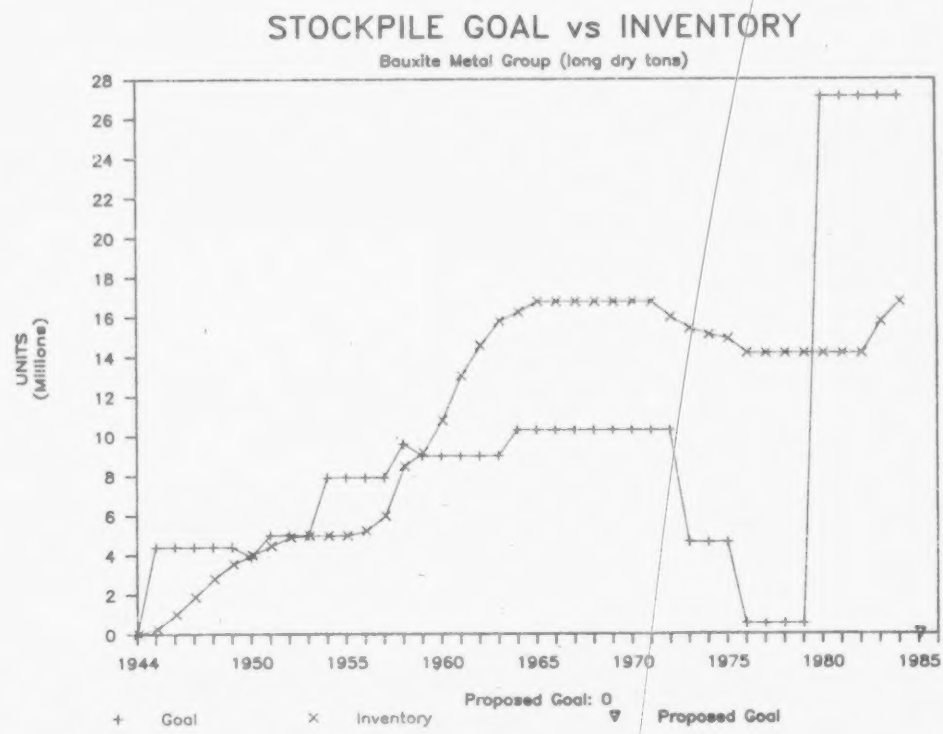
Mr. BENNETT. Mr. Price has something.

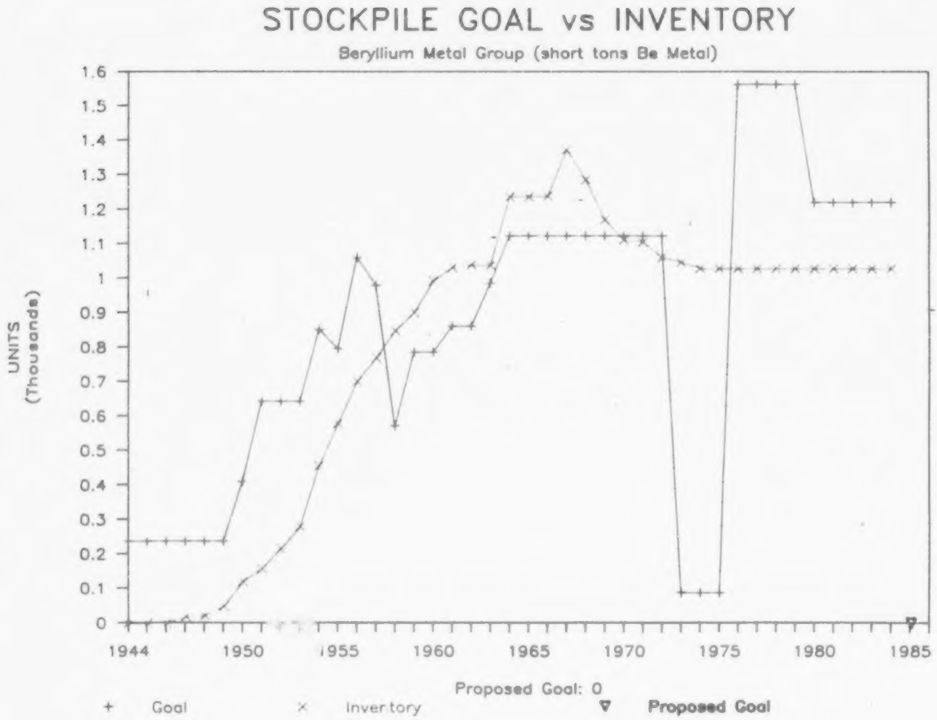
Mr. PRICE. Mr. Chairman, in the back of the package in front of each of the members there is a sample of graphs of the goals of the stockpile and the inventory, I ask your permission to include them in the hearing record.

Mr. BENNETT. Without objection it will be included in the record.

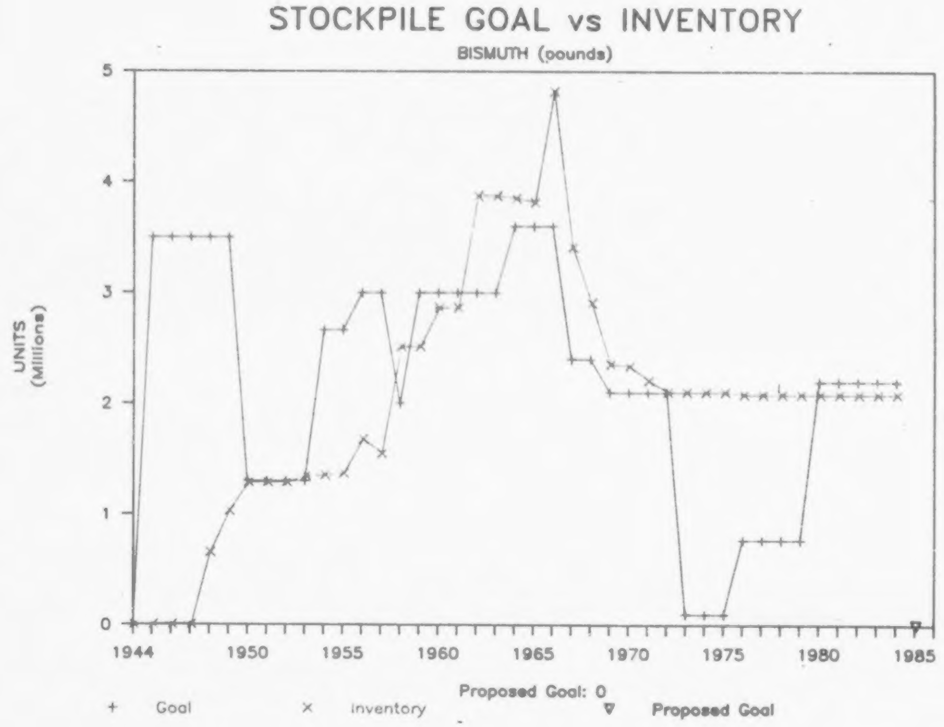
[The following information was received for the record:]


STOCKPILE GOAL vs INVENTORY
ANTIMONY (short tons)
UNITS (Thousands)
0
10
20
30
40
50
60
70
80
90
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 4,585 s.t.
+ Goal
× Inventory
▽ Proposed Goal


STOCKPILE GOAL vs INVENTORY
Bauxite Metal Group (long dry tons)
UNITS (Millions)
0
2
4
6
8
10
12
14
16
18
20
22
24
26
28
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
▽ Proposed Goal



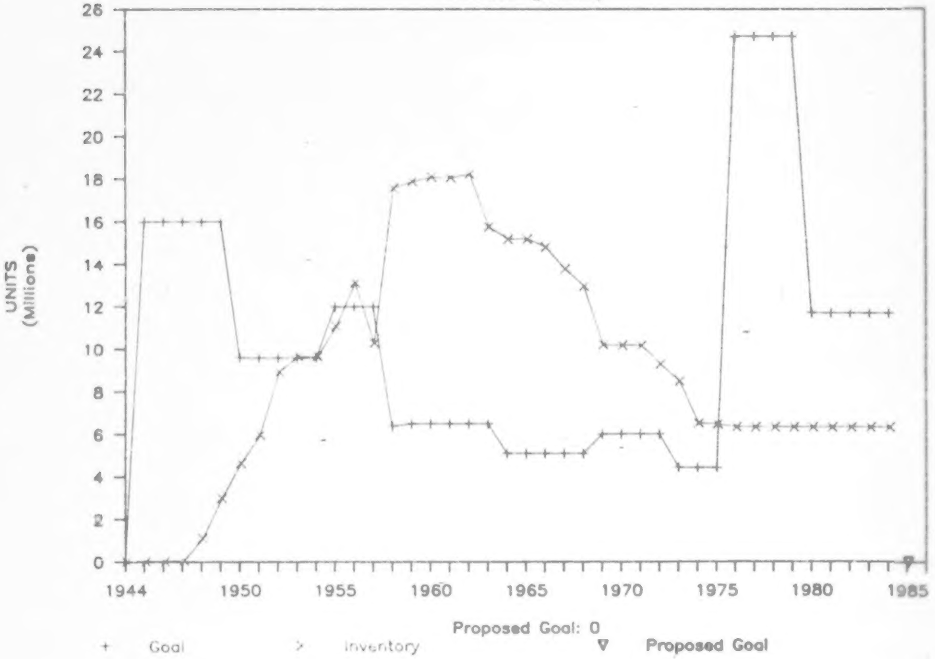
STOCKPILE GOAL vs INVENTORY
Beryllium Metal Group (short tons Be Metal)
UNITS (Thousands)
1.6
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
▽ Proposed Goal



STOCKPILE GOAL vs INVENTORY
BISMUTH (pounds)
UNITS (Millions)
5
4
3
2
1
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
▽ Proposed Goal

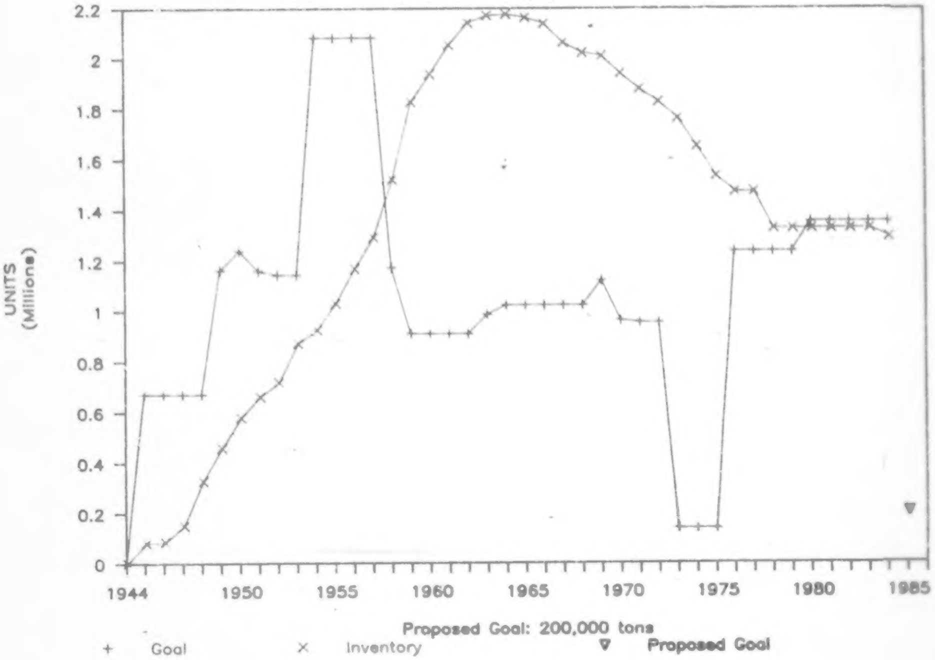
STOCKPILE GOAL vs INVENTORY

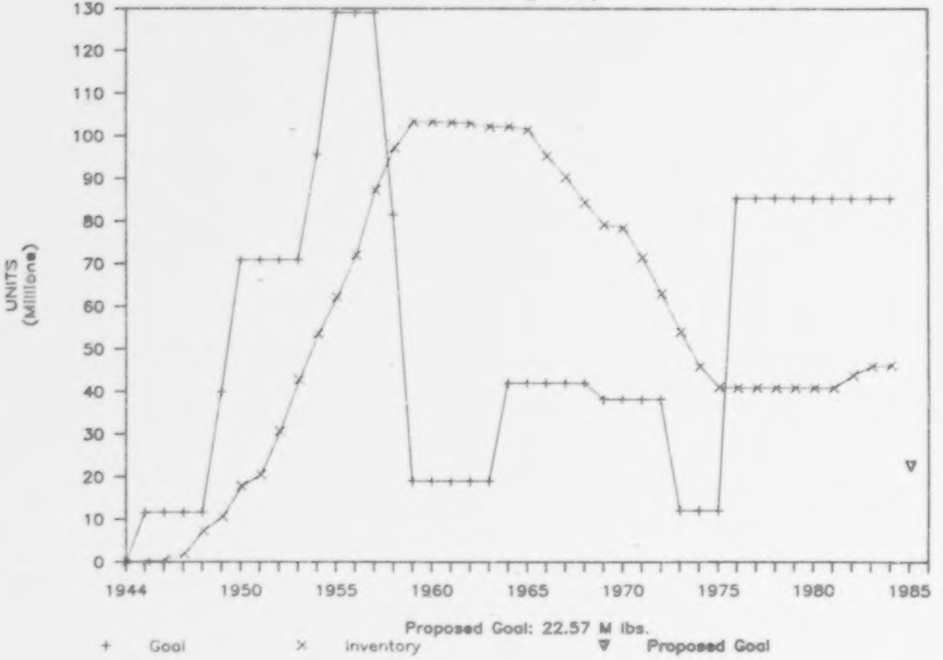
CADMIUM (pounds)



STOCKPILE GOAL vs INVENTORY

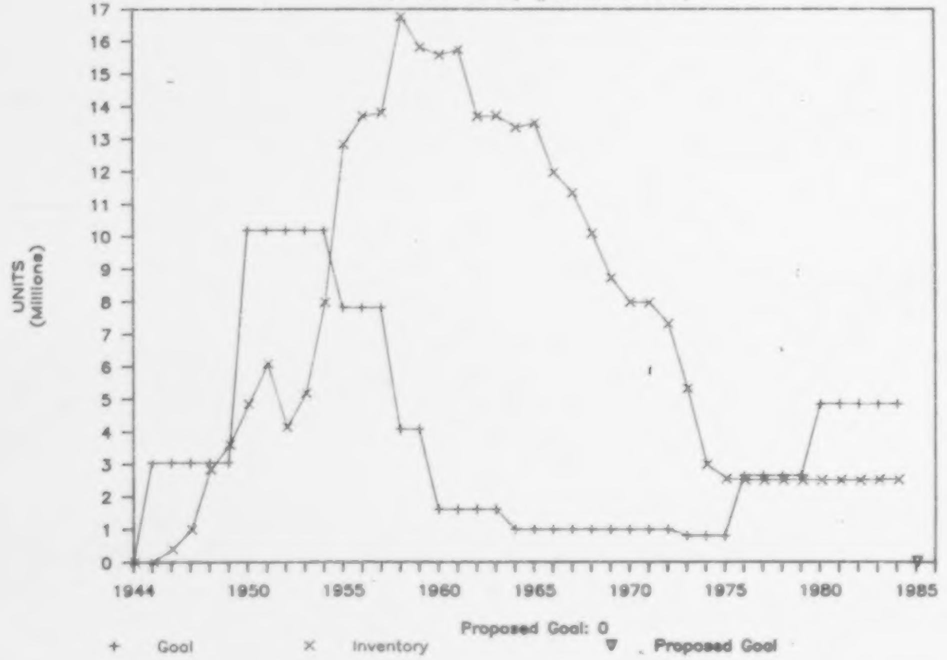
Chromium Group (short tons)





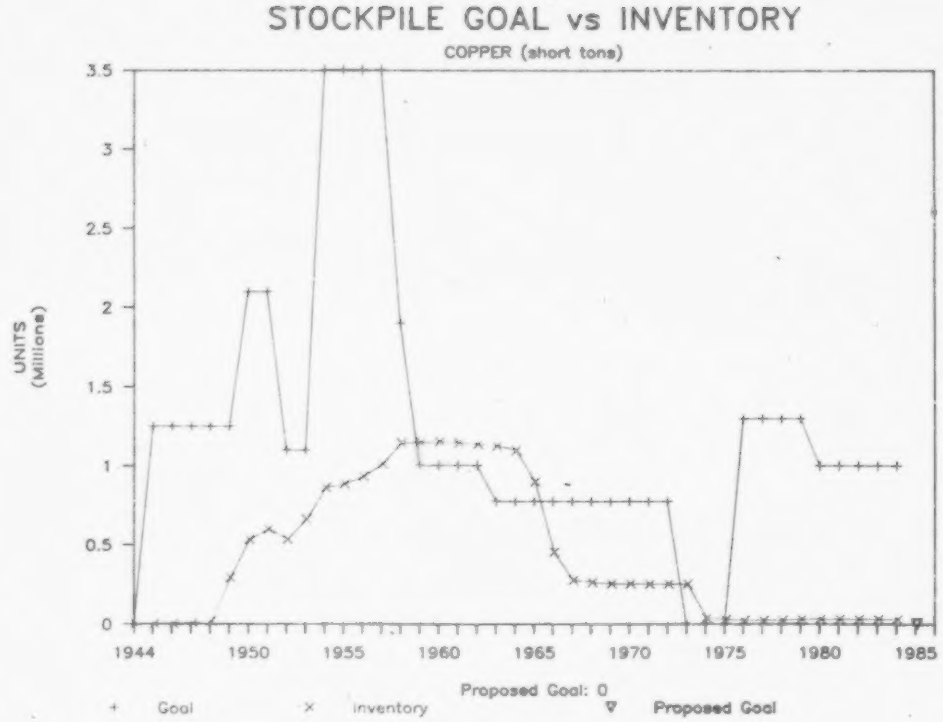
STOCKPILE GOAL vs INVENTORY

COBALT (pounds)



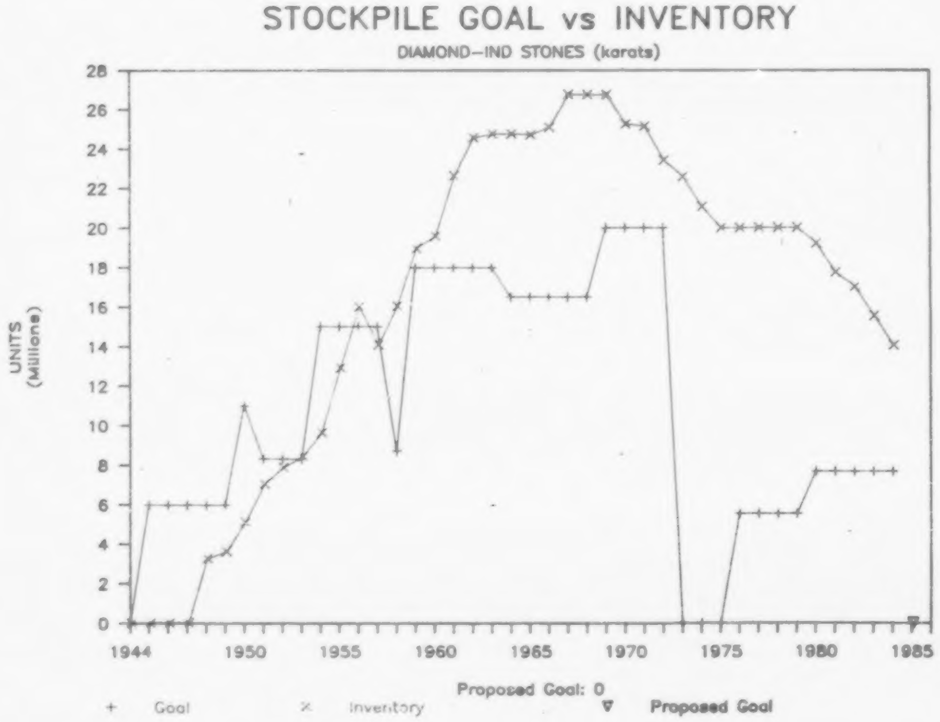
STOCKPILE GOAL vs INVENTORY

Columbium Group (pounds Cb Metal)



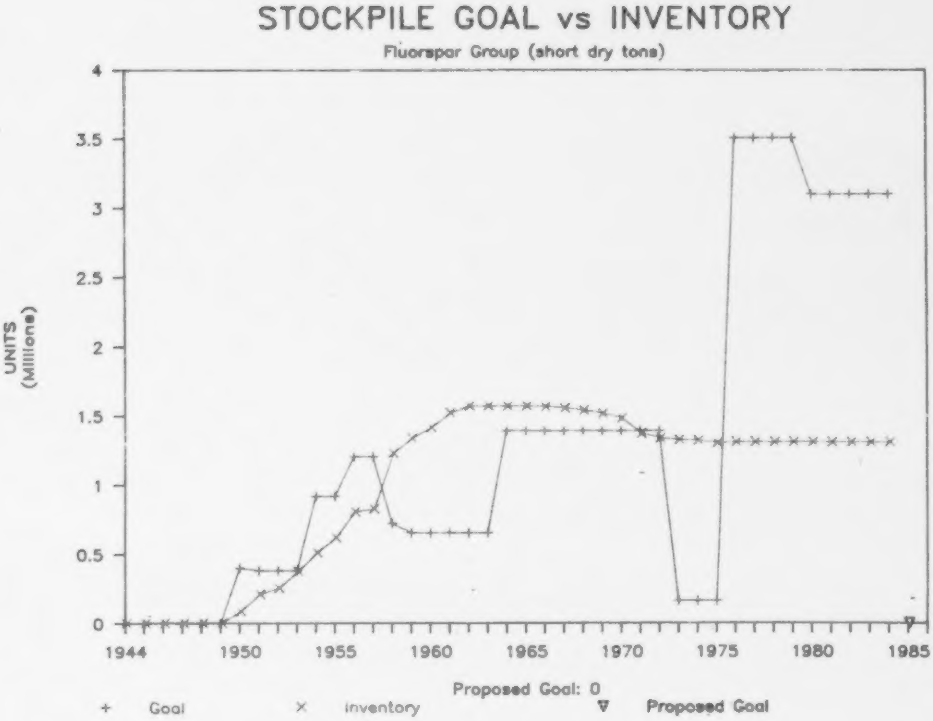
STOCKPILE GOAL vs INVENTORY

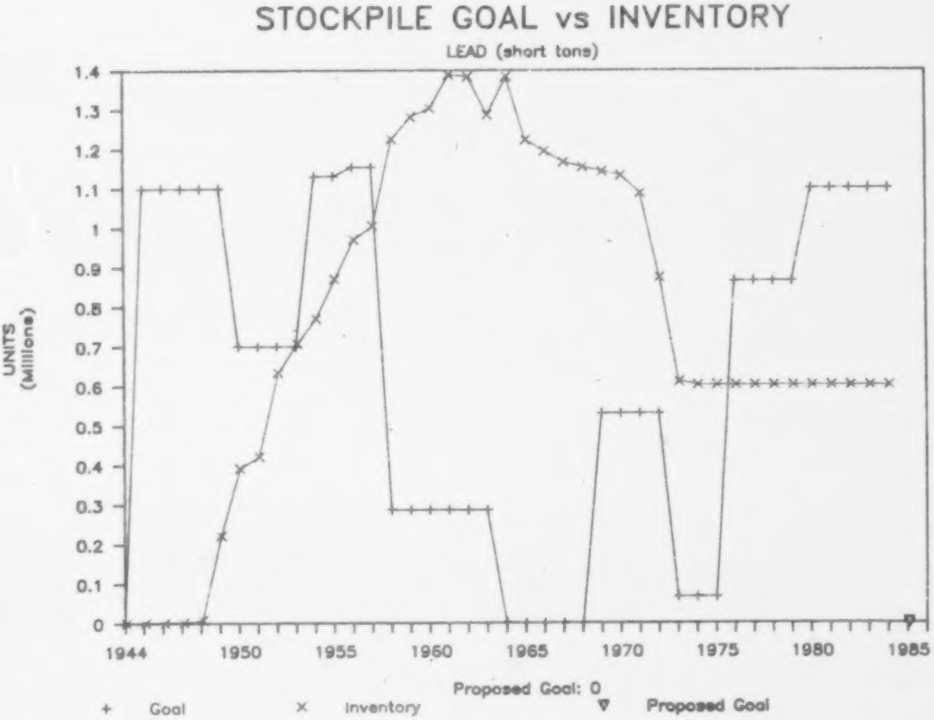
COPPER (short tons)

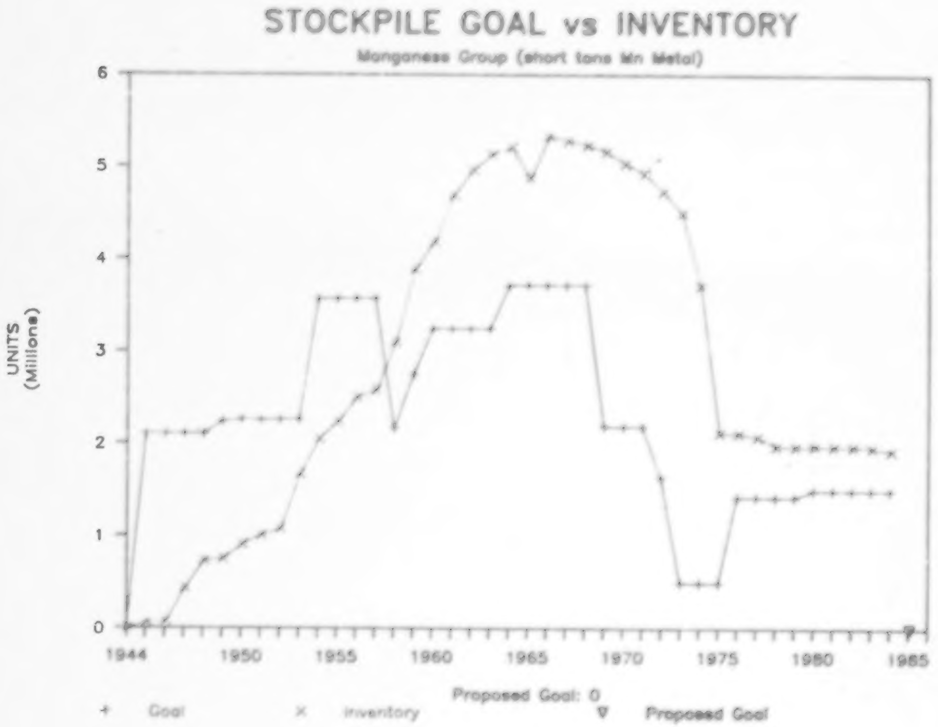


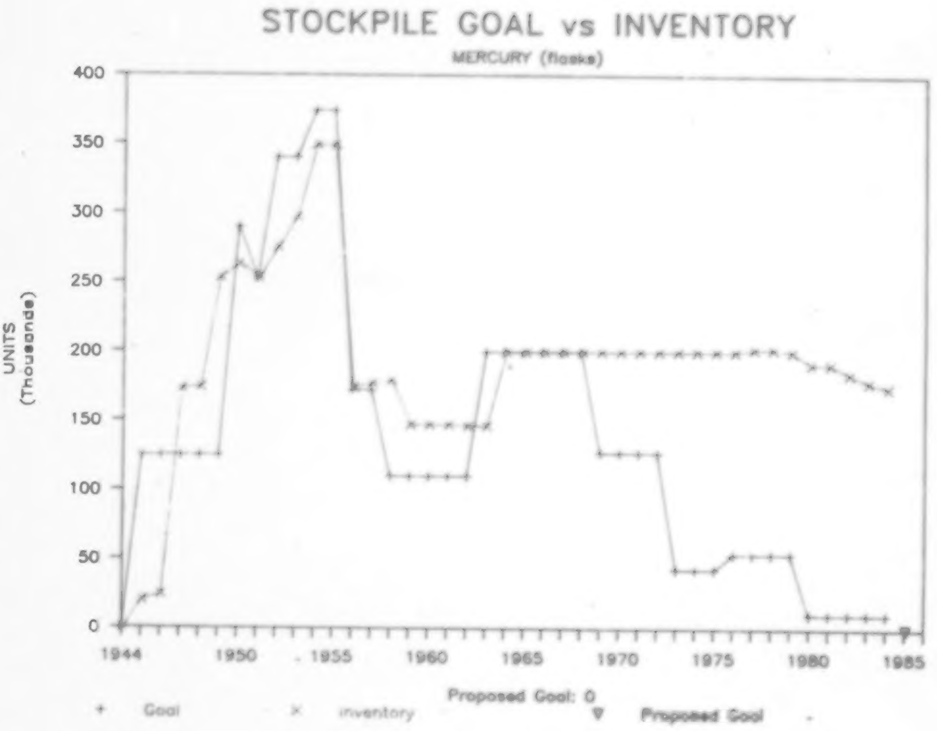
STOCKPILE GOAL vs INVENTORY

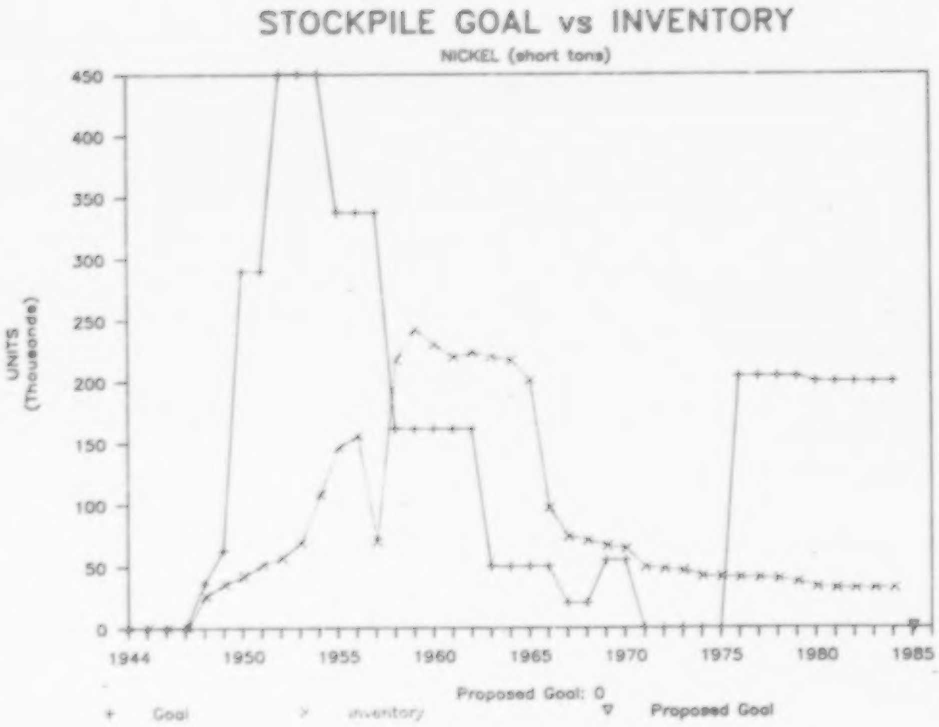
DIAMOND–IND STONES (karats)

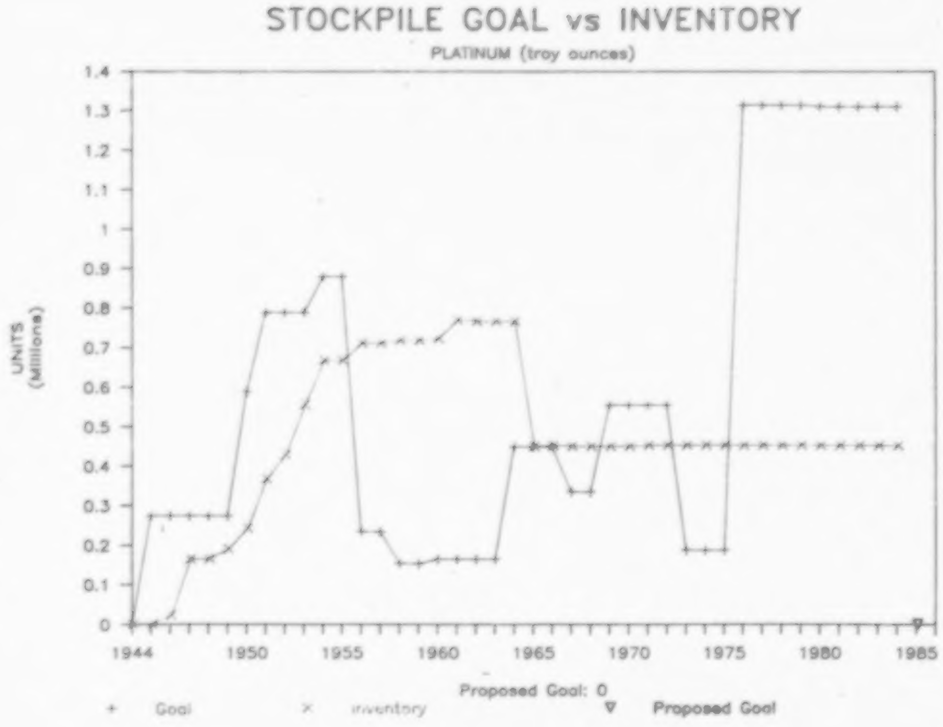

STOCKPILE GOAL vs INVENTORY
Fluorspar Group (short dry tons)
UNITS (Millions)
4
3.5
3
2.5
2
1.5
1
0.5
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× inventory
∇ Proposed Goal

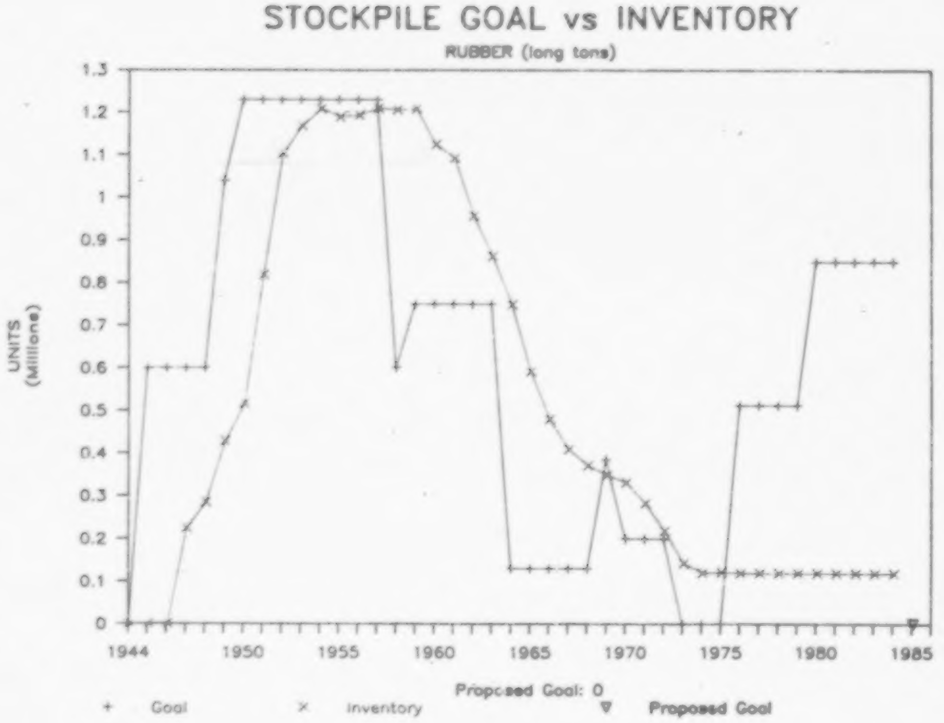

STOCKPILE GOAL vs INVENTORY
LEAD (short tons)
UNITS (Millions)
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× inventory
∇ Proposed Goal


STOCKPILE GOAL vs INVENTORY
Manganese Group (short tons Mn Metal)
UNITS (Millions)
0
1
2
3
4
5
6
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
∇ Proposed Goal


STOCKPILE GOAL vs INVENTORY
MERCURY (flasks)
UNITS (Thousands)
0
50
100
150
200
250
300
350
400
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
∇ Proposed Goal

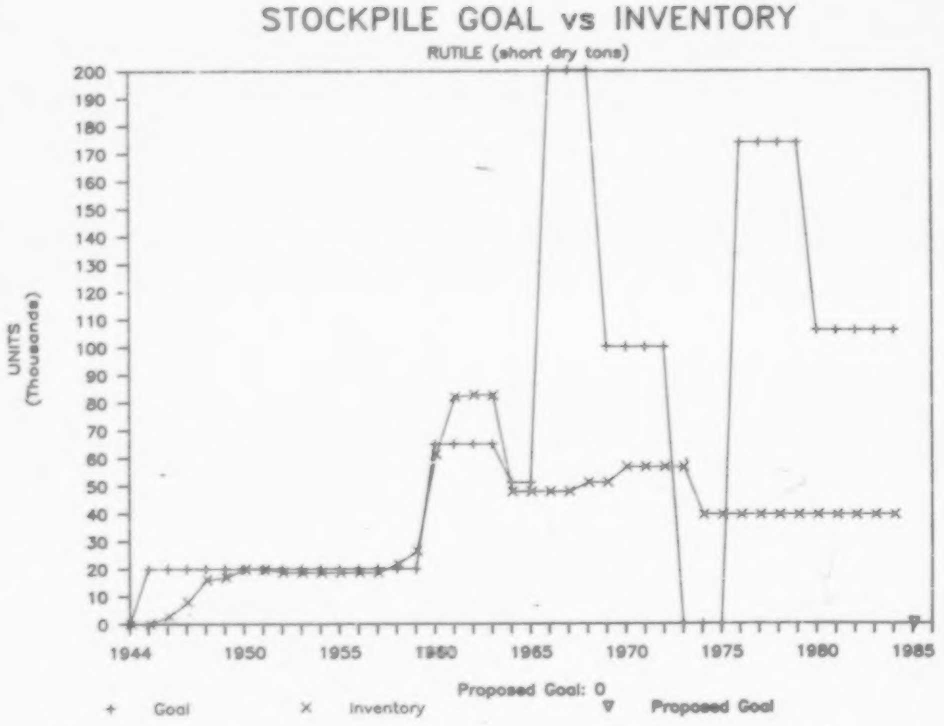

STOCKPILE GOAL vs INVENTORY
NICKEL (short tons)
UNITS (Thousands)
450
400
350
300
250
200
150
100
50
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
▽ Proposed Goal


STOCKPILE GOAL vs INVENTORY
PLATINUM (troy ounces)
UNITS (Millions)
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
▽ Proposed Goal



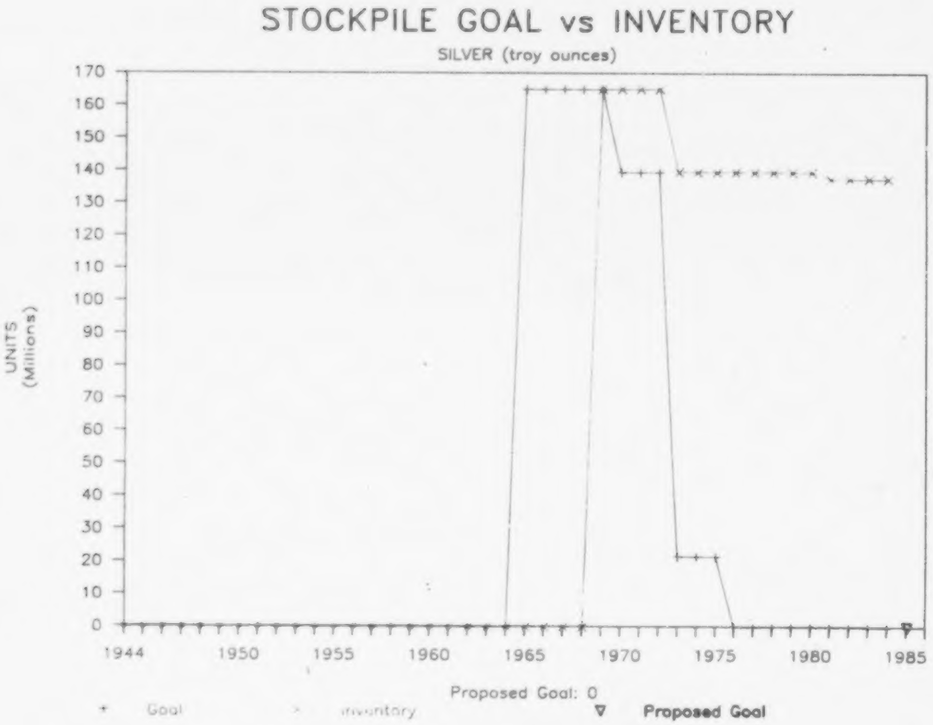
STOCKPILE GOAL vs INVENTORY

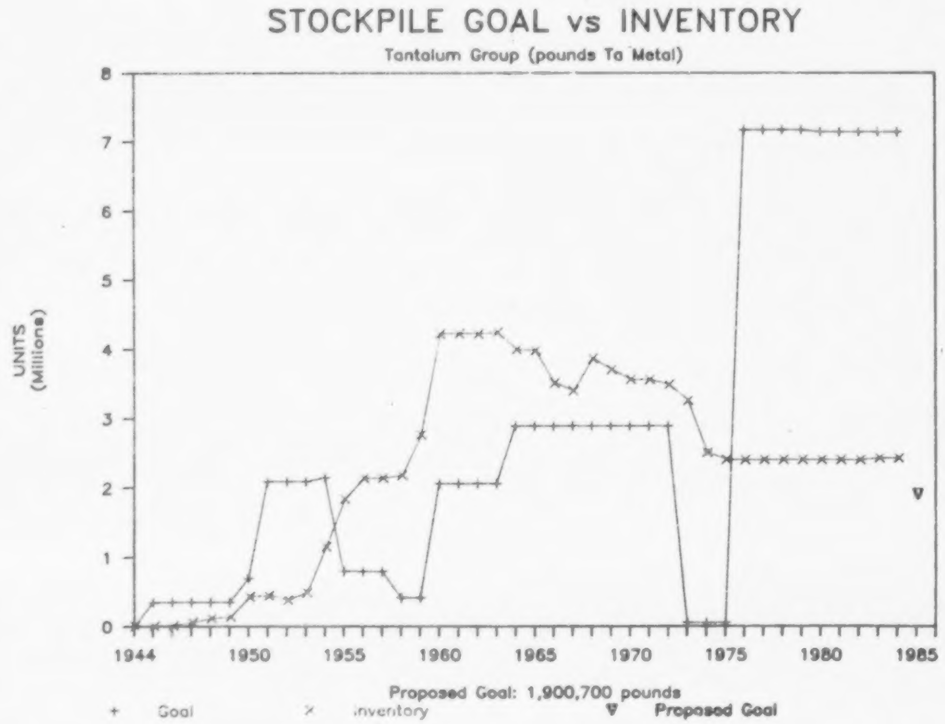
RUBBER (long tons)

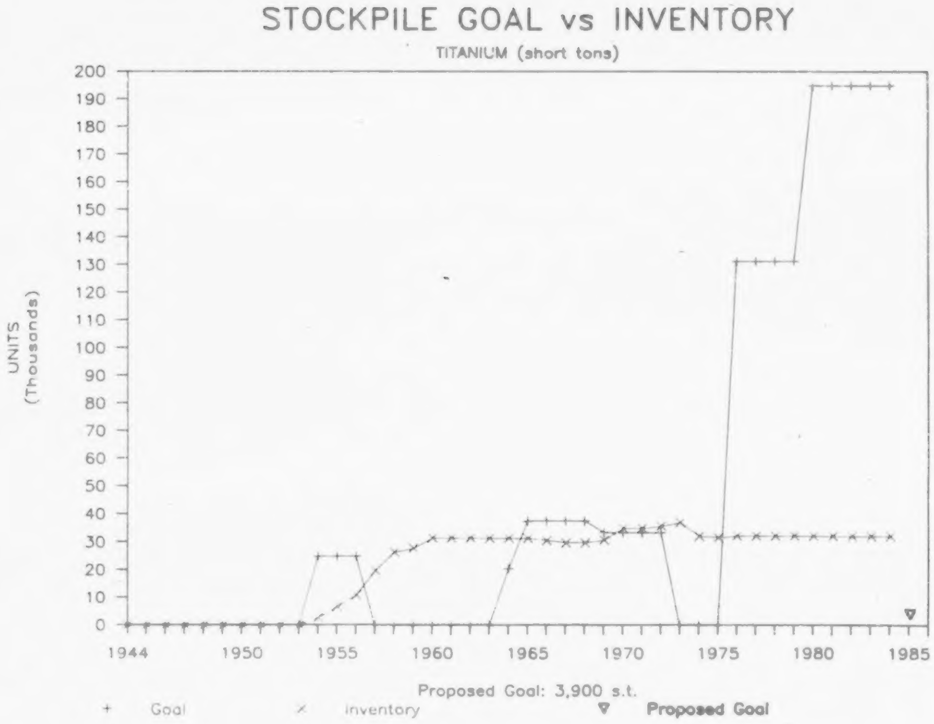


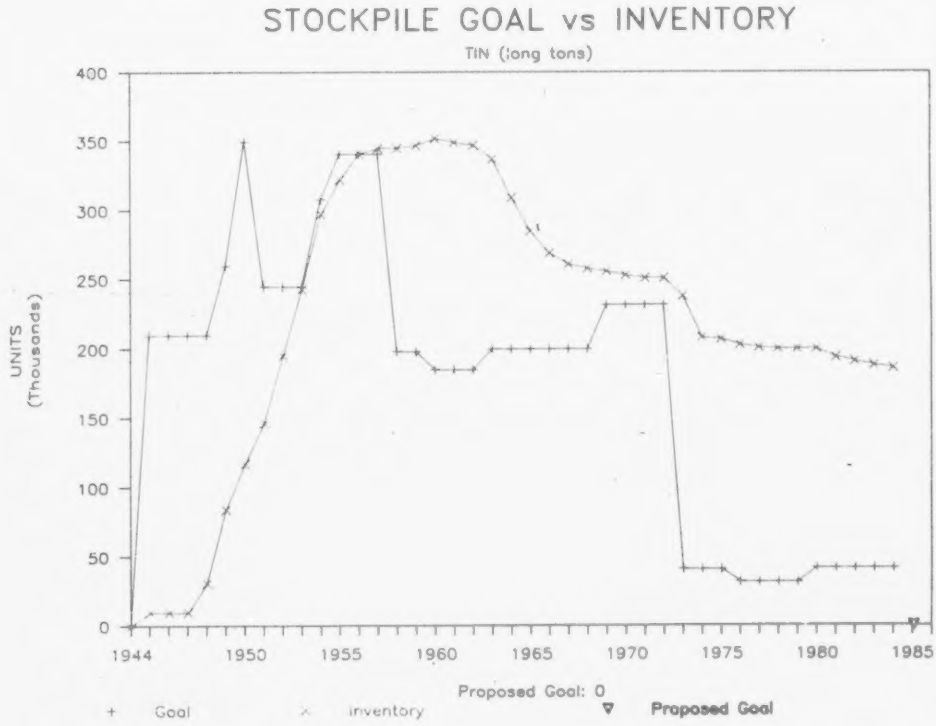
STOCKPILE GOAL vs INVENTORY

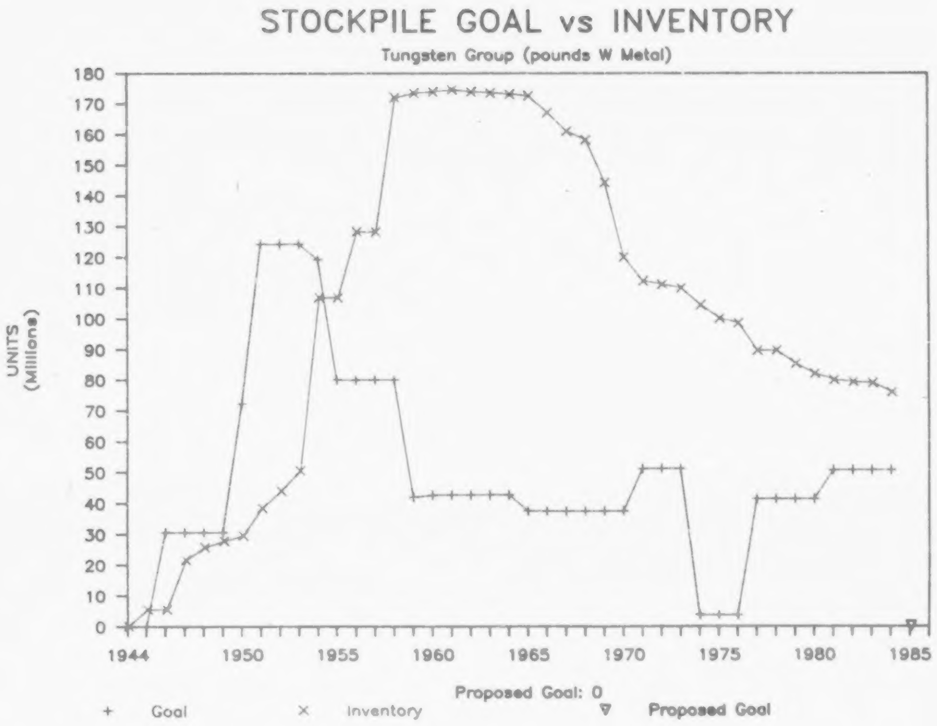
RUTILE (short dry tons)

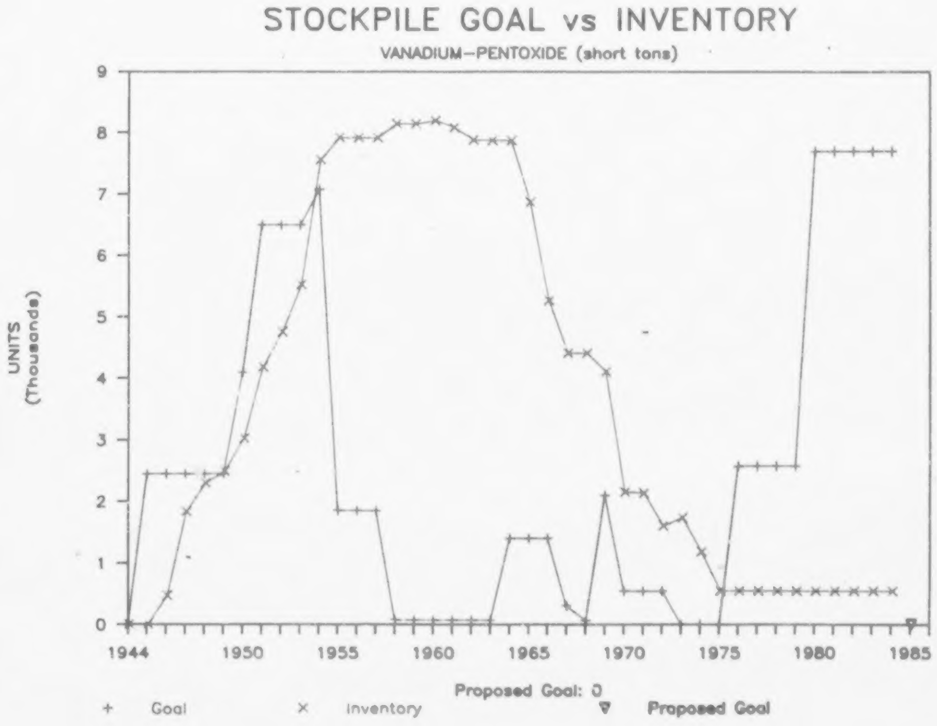

STOCKPILE GOAL vs INVENTORY
SILVER (troy ounces)
UNITS (Millions)
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
∇ Proposed Goal

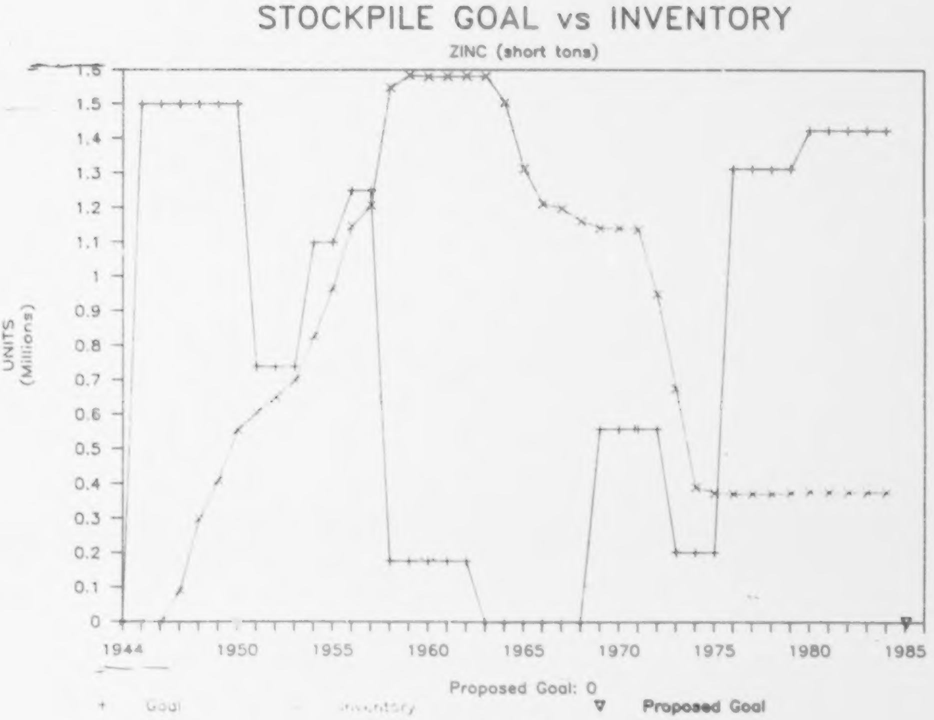

STOCKPILE GOAL vs INVENTORY
Tantalum Group (pounds Ta Metal)
UNITS (Millions)
8
7
6
5
4
3
2
1
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 1,900,700 pounds
+ Goal
× Inventory
∇ Proposed Goal


STOCKPILE GOAL vs INVENTORY
TITANIUM (short tons)
UNITS
(Thousands)
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 3,900 s.t.
+ Goal
× inventory
▽ Proposed Goal


STOCKPILE GOAL vs INVENTORY
TIN (long tons)
UNITS
(Thousands)
400
350
300
250
200
150
100
50
0
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× inventory
▽ Proposed Goal


STOCKPILE GOAL vs INVENTORY
Tungsten Group (pounds W Metal)
UNITS (Millions)
0
10
20
30
40
50
60
70
80
90
100
110
120
130
140
150
160
170
180
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
▽ Proposed Goal


STOCKPILE GOAL vs INVENTORY
VANADIUM-PENTOXIDE (short tons)
UNITS (Thousands)
0
1
2
3
4
5
6
7
8
9
1944
1950
1955
1960
1965
1970
1975
1980
1985
Proposed Goal: 0
+ Goal
× Inventory
▽ Proposed Goal



Mr. Bennett. Anything else you want to put in the record?

Mr. Price. I would like to also include in the record, if possible, a brandnew publication that was released by the Congressional Research Service on February 8, 1986, by Alfred R. Greenwood. The title is "The Reagan Administration Proposes Dramatic Changes to National Defense Stockpile Goals."

Mr. Bennett. Without objection that is so ordered.

[The Congressional Research Service publication is retained in subcommittee files.]

Mr. Bennett. OK. Anything else?

Mr. Price. That is all, sir.

Mr. Bennett. We certainly are deeply grateful to you for your coming here. And the meeting will stand adjourned.

[Whereupon, at 11:13 a.m., the subcommittee was adjourned.]

APPENDIX

Statement of

Malcolm Baldrige

Secretary of Commerce

before the

Subcommittee on Seapower and Strategic and Critical Materials

Committee on Armed Services

U.S. House of Representatives

February 27, 1986

I am pleased to provide the views of the Department of Commerce on H.R. 3743, a bill to amend the Strategic and Critical Materials Stock Piling Act. H.R. 3743 transfers from the Executive Branch to the Congress authority to establish Stockpile goals. With regard to administration of the Stockpile, the bill restricts the President's authority to delegate responsibilities. It specifies that he may only delegate stockpile functions to the Department of Defense.

The Department of Commerce opposes strongly H.R. 3743.

The President as Commander-in-Chief of the Armed Forces has overall responsibility for defense policy including the stockpiling of strategic materials. The setting of stockpile goals is an essential part of the President's role in establishing national security policy. To fulfill these responsibilities, the President has established procedures that allow all the technical, economic, and strategic aspects of national security to be considered.

The determination of which materials are strategic and critical and the setting of acquisition goals for various forms and grades of these materials, are now handled through an interagency process. This process ensures that essential civilian, industrial and direct defense uses of these materials are all given appropriate consideration. When stockpile goals are reviewed, changing war scenarios, economic projections, domestic mineral production estimates, and projections of reliable imports are all evaluated to determine whether a shift in goals is required. The work is done by interagency committees so that the views of diverse expert user groups are all included. The recent NSC-managed Stockpile Study as well as prior goal reviews in the 1970's, reflected this interagency involvement.

Congress has always played an essential role in the Stockpile program through its responsibilities to authorize disposal levels for specific commodities, approve appropriations, advise the President, and generally oversee the program. However, Stockpile policy decision-making should remain an executive function. The Executive Branch decision-making process provides the flexibility the country needs to respond to rapidly changing strategic situations and fast-developing defense requirements for exotic materials in high technology weapons systems. This Executive Branch system also provides the balance and expertise that is needed to ensure that all potential users of the materials in industry are considered in the process of setting Stockpile goals. Moreover, the current law allows the changing views of each Administration on what constitutes the primary national security threats to be reflected in stockpile policy. If decisions of this type are removed from the President's authority, inconsistencies will develop in overall defense policy which makes coordination of national security policy more difficult. For all these reasons, the Commerce Department strongly opposes amendments to the Stockpiling Act that would set goals for each strategic material by law.

With regard to the administration of the Stockpile, I believe that the Executive Branch is best suited to deal with the multifaceted technical, economic, and policy issues. The President must have flexibility to delegate responsibilities as he deems appropriate. At present, the President relies on the expertise of a number of agencies in the administration of the Stockpile. Specifically, he has delegated Stockpile policy development to the Federal Emergency Management Agency (FEMA), but FEMA does not develop acquisition and disposal strategies in a vacuum. Rather it depends on the expertise that is available in the interagency community to determine acquisition and disposal levels for specific commodities, develop purchase specifications, and assess market implications of disposals and acquisition. FEMA has also established an elaborate committee structure to ensure that the Annual Materials Plan and Five Year Plans for specific acquisitions and disposal of strategic and critical materials reflect the views of all relevant defense and civilian agencies as well as the Executive Office of the President.

FEMA has established an Annual Materials Plan Steering Committee (AMPSC), which it chairs, to determine planned acquisitions and disposals. The AMPSC has representation from 16 agencies. Moreover, subcommittees of the AMPSC with wide interagency representation have been appointed to deal with specific issues.

In this process, the Department of Commerce plays a central role as the agency with specific expertise concerning industrial production capacity and output, international trade and economic policy, and market analysis. In addition to representation on the AMPSC, Commerce chairs two important committees: the Market and International Political Impact Subcommittee of AMPSC and the Purchase Specifications and Special Instructions Committee.

The Market and International Political Impact Subcommittee (which is co-chaired by State) is responsible for assessing whether the annual acquisition and disposal program is likely to cause serious market disruptions or foreign policy conflicts. The Purchase Specifications Committee prepares the specifications for physical and chemical properties of all materials that are to be acquired so that the Stockpile contains items that meet changing defense requirements.

In addition, Commerce provides the data on production and consumption of strategic materials which are used in determining whether Stockpile goals need to be changed. Finally, Commerce serves on special committees that evaluate proposals to acquire strategic materials through barter with other nations. In short, the Department plays an important role in the overall Stockpile program that cannot easily be duplicated by Congress or other Executive agencies. We should continue to do so in the future.

With regard to the administration of the Stockpile, the President believes that the General Services Administration (GSA) is best suited to manage the actual day-to-day business of procurements and disposals given its broad expertise in property management. You should note that the issue of GSA's role in administering the Stockpile has been given considerable thought by the Administration.

The President's February 8, 1985, Report on the Stockpile to the Congress, prepared pursuant to section 904 of the 1985 Defense Authorization Act, stated:

> "Day-to-day stockpile operations require expertise in supply management. GSA, which has the primary responsibility for management of government property, has such expertise and has a demonstrated capability to manage the stockpile". (Emphasis added.)

GSA has managed Stockpile operations for over 30 years and has received very favorable comments about its work in a court decision in 1983. GSA has internal agency staff which monitor the daily prices and market transactions involving strategic material in world markets. This information is used in their own acquisition and disposal decisions to help minimize adverse market impacts of their transactions on others.

From time to time individual firms or trade associations may have been displeased with the specific market transactions conducted by GSA. We recognize that GSA acquisition and disposal transactions can have some adverse impact on producer or consumer firms in the mining or industrial sectors because these transactions necessarily affect the supply of and demand for commodities on world markets. However, under Section 6(b) of the Act, GSA must balance efforts to avoid "undue disruption" of markets with the directive to protect against "avoidable loss" to the U.S. government. The Department of Commerce assists GSA in this process. We believe that, with the support and assistance of the interagency community, GSA regularly achieves the needed balance.

Finally, GSA is making every effort to improve its already good performance in this area. A new Office of National Defense Stockpile was recently established in the agency's Federal Property Resources Service. The new Office consolidates Stockpile inventory management functions and market transaction functions so that GSA can achieve increased efficiency and flexibility in its operations as well as better management control.

It is important to note that the Department of Defense plays a significant role in the overall policy process and that its views are certainly incorporated into virtually every major Stockpile decision, including the development of the material requirements of the Stockpile goals. DOD has primary responsibility for U.S. national security policy and as such has a paramount interest in all aspects of the Stockpile program. Specifically, DOD serves on the AMPSC (which sets Stockpile acquisition and disposal policy), chairs the Strategic Implications Subcommittee of AMPSC, and serves on the Interagency Purchase Specifications and Special Instruction Committee.

As I previously noted, given the fact that DOD's positions are already included in the policy process, it serves no useful purpose to establish a system which effectively excludes the other experts in the Executive Branch.

For all these reasons, the Commerce Department strongly opposes the provisions of H.R. 3743 that would limit delegations of authority to administer the Stockpiling Act to the Secretary of Defense.

The Office of Management and Budget has advised that, from the standpoint of the Administration's program, there is no objection to the submission of this statement to the Subcommittee.

Submitted for the Record, February 27, 1986.

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

Honorable Charles E. Bennett
Chairman, Subcommittee on Seapower and
Strategic and Critical Materials
Committee on Armed Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Bennett:

Thank you for your invitation of February 7, 1986, to Secretary Hodel to appear before the Subcommittee on February 27 to present the views of the Department on H.R. 3743, a bill "To provide for the establishment by law of the goals for the National Defense Stockpile, and for other purposes." While prior commitments preclude the Secretary's appearance, we respectfully submit for your consideration our report on the subject legislation.

For the reasons set forth below, we strongly oppose enactment of H.R. 3743.

H.R. 3743 would define congressional intent with respect to the Strategic and Critical Materials Stock Piling Act (Act) (Public Law 96-41; 50 U.S.C. 98 et seq.) as:

- Management of the National Defense Stockpile (NDS) according to national defense rather than economic or budget policy considerations.
- Maintenance of the NDS at a level sufficient to sustain the United States for three years in the event of a national emergency.

H.R. 3743 would also provide that the materials that are strategic and critical for the purposes of the Act and the quality, quantity and manner of acquisition and storage of each such material would be established by law. Under existing law (50 U.S.C. 98b(a)), the President has these responsibilities. The bill would specify, in addition, that the functions of the President under existing law (50 U.S.C. 98e, 98f, 98h-l and 98h-2) with respect to stockpile management and certain related matters could only be delegated to the Secretary of Defense. Finally, H.R. 3743 would provide that until changed by the Congress, the determinations made by the President for the NDS under 50 U.S.C. 98b(a) would remain in effect.

We are concerned with the interpretation of congressional intent included in H.R. 3743. While it merely restates guidelines for the exercise of Presidential authority which are already part of the existing law (50 U.S.C. 98b(b)), we are concerned that "national defense" for the purposes of NDS management could be defined in an unnecessarily restrictive fashion. Given that the principal thrust of the NDS relates to a long-term, conventional scenario, actual NDS management must, in our opinion, be guided by essential civilian and industrial needs as well as strict military requirements. We believe that an appropriate statement of the relationship of these factors is provided in the President's 1985 statement of NDS policy as follows: "The National Defense Stockpile (should) be sufficient to meet the military, industrial and essential civilian needs for a 3-year conventional global military conflict . . ." While we believe this interpretation of "national defense" is embodied in the current guidelines for NDS management, we recommend that any recodification of these principles expressly recognize the role of industrial and essential civilian needs.

Our concern about this statement of congressional intent is heightened by the bill's placement of NDS management responsibility with the Department of Defense. Sublimating these critical policy determinations from the President to a single agency level could inappropriately skew NDS goals toward the narrow military requirements of the armed services, without due appreciation of the equally important needs of our industrial and essential civilian sectors.

These concerns about the placement of responsibility for stockpile management, as well as the related issue of the determination of stockpile goals, are reflected in the President's Report to the Congress pursuant to section 904 of the Omnibus Defense Authorization Act of 1985, dated February 8, 1985, which indicated as follows:

> There are two basic functions involved (in stockpile management): one, broad strategic planning involved in determining stockpile goals and overall acquisition/disposal plans; the other, day-to-day procurement, upgrading, storage, and disposals. Establishment of stockpile goals must be placed at the appropriate level of government where full account can be taken of current and future defense preparedness planning, including highly classified judgments as to the availability and accessibility of foreign sources of supply, economic policies and impacts, possible wartime losses on shipping lanes, energy supply availability, and the status of our mutual defense agreements with foreign nations around the globe. It is important to be able to have access to and rely on the judgment of a number of different agencies in establishing stockpile goals. Consequently, determination of stockpile goals was properly placed in the President by Section 3 of the Strategic and Critical Materials Stock Piling Act of 1979, leaving the President the flexibility to delegate this responsibility by Executive Order. Through interagency forums, the Department of Defense already participates fully in developing stockpile goals and approving acquisition/disposal plans. Day-to-day stockpile operations require expertise in supply management. The General Services Administration, which has the primary responsibility for management of government property, has such expertise and has a demonstrated capability to manage the stockpile. For these reasons, placing such commercial operations under the Department of Defense was not favorably considered. (emphasis provided)

The complete text of the President's February 8, 1985 Report is enclosed for your further review and consideration.

By fixing the President's NDS determinations in law until changed by Congress, H.R. 3743 would remove the flexibility needed to respond to evolving national defense materials needs. We believe that it is essential for the President to retain the ability to modernize and improve the stockpile whenever necessary, especially in the area of high technology materials.

The comprehensive interagency study which resulted in issuance of the President's National Defense Stockpile Policy on July 8, 1985 (a copy of which is enclosed) demonstrated how materials needs can change within a short period of time. The July, 1985 policy statement reflected the President's determination that the NDS for the 42 materials studied will now contain $6.7 billion in materials, to be divided into two tiers. This is a substantial change over the 1979 goals set by the previous Administration, which would have required $16.3 billion (using May, 1985 prices) for 62 strategic and critical materials. The Administration plans to complete review of the remaining materials in the NDS in the near future.

In the interagency study which led to the 1985 policy statement, substantial improvements were made in analytic methods for estimating materials requirements and available supply. These changes, as well as the correction of errors and the use of more plausible assumptions, are the primary reasons for the revised stockpile goals. The latest study also relied on actual data up to and including 1982 for all phases of the analysis. By contrast, the previous 1979 stockpile goals relied, in many cases, on 1967 data.

In summary, we believe that sound considerations of national defense and strategic planning require that the President retain the authority to (1) make basic NDS materials determinations; and (2) assign the responsibility for day-to-day procurement, upgrading, storage and disposals to any appropriate agency or agencies. We must strongly oppose enactment of H.R. 3743 because it would remove this essential Presidential authority.

We would be pleased to work closely with the Committee and its staff as this important subject receives further examination.

The Office of Management and Budget has advised that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

Robert N. Broadbent

ASSISTANT SECRETARY

Enclosures

APPENDIX 1

PRESIDENT'S REPORT TO THE CONGRESS PURSUANT TO SECTION 904 OF THE OMNIBUS DEFENSE AUTHORIZATION ACT OF 1985

February 8, 1985

Section 904 of the Omnibus Defense Authorization Act of 1985 requested the following:

(1) a plan for attaining the goals of the stockpile specified in section 3(b)(2) of the Act over a three-year period: In the latter part of 1983 I had directed the National Security Council (NSC) to initiate a major review of the strategic and critical materials stockpiling program to assure that it appropriately reflected the requirements of national defense preparedness. That review is now well along. When it is completed changes in a number of existing stockpile goals will be required. Obsolete materials must be removed from the stockpile list while newer materials required by modern technology must be added. Further, quantitative goals for many other items remaining on the list will require changes. When the NSC review is completed, a master plan for attaining the revised goals will be submitted to the Congress.

(2) an analysis as to the appropriateness of placing all aspects of the management and operation of the stockpile under a single authority, such as the Secretary of Defense: There are two basic functions involved: one, broad strategic planning involved in determining stockpile goals and overall acquisition/disposal plans; the other, day-to-day procurement, upgrading, storage, and disposals. Establishment of stockpile goals must be placed at the appropriate level of government where full account can be taken of current and future defense preparedness planning, including highly classified judgments as to the availability and accessibility of foreign sources of supply, economic policies and impacts, possible wartime losses on shipping lanes, energy supply availability, and the status of our mutual defense agreements with foreign nations around the globe. It is important to be able to have access to and rely on the judgment of a number of different agencies in establishing stockpile goals. Consequently, determination of stockpile goals was properly placed in the President by Section 3 of the Strategic and Critical Materials Stock Piling Act of 1979, leaving the President the flexibility to delegate this responsibility by Executive Order. Through interagency forums, the Department of Defense already participates fully in developing stockpile goals and approving acquisition/disposal plans. Day-to-day stockpile operations require expertise in supply management. The General Services Administration, which has the primary responsibility for management of government property, has such expertise and has a demonstrated capability to manage the stockpile. For these reasons, placing such commercial operations under the Department of Defense was not favorably considered.

(3) an analysis of the adequacy of existing legal authority to barter surplus and excess material of the Government and excess real property of the Department of Defense for strategic and critical materials for the stockpile: There is clearly ample existing legal authority to barter surplus and excess material of the government and excess real property of the Department of Defense for strategic and critical materials. This authority is contained in five major laws abstracted in Appendix A. Further, there is ample legal authority for the Department of Defense to transfer excess real or other property to the General Services Administration, which could then exchange same for strategic and critical materials under the Federal Property and Administrative Services Act of 1949.

(4) an analysis of why existing barter authority has not been used more aggressively in procuring strategic and critical materials to meet stockpile goals: My April 5, 1982, "National Materials and Minerals Program Plan" provided for the use of barter in cases where it is more efficient and effective than open market transactions or when in the best interest of the country. There are several reasons why the use of barter arrangements should be used sparingly, however. For example, a complication common to all barters or exchanges ("countertrade" in the business world) is the need to determine the relative values of the commodities exchanged. This problem invites possible irregularities, which are normally avoided when the government offers publicly to sell for cash to the

highest bidder or to buy for cash from the lowest bidder. Because normal U.S. commercial exports of agricultural commodities exceed U.S. imports of these commodities, care must be taken to insure that barter transactions involving agricultural surpluses do not interfere with normal export sales for cash, or do not disrupt markets of friendly nations, or conflict with our GATT obligations. Further, bartering agricultural commodities by the Commodity Credit Corporation (CCC) without reimbursement to the CCC draws down its borrowing authority. In order to continue its operations, the CCC must eventually obtain new authority from the Congress, which places an added burden on the CCC in maintaining its operations. To facilitate the evaluation and coordination of barter, in January of 1984, the Emergency Mobilization Preparedness Board established in Interagency Barter Working Group to review proposals for bartering U.S. surplus agricultural products and other Federal property for needed strategic materials.

(5) a draft of such legislation as may be required to carry out any recommendations respecting such plans and analyses: Any legislative recommendations needed to implement the Administration's stockpile goals and related disposal and acquisition proposals will be transmitted at a later time when the current review process is completed.

APPENDIX A

The Commodity Credit Corporation Charter Act 714b.15USCA —

Notwithstanding any other provision or law, the Commodity Credit Corporation is authorized upon terms and conditions prescribed or approved by the Secretary of Agriculture, to accept strategic and critical materials produced abroad in exchange for agricultural commodities acquired by the Corporation. Insofar as practicable, in effecting such exchange of goods, normal commercial trade channels shall be utilized and priority shall be given to commodities easily storable and those which serve as prime incentive goods to stimulate production of critical and strategic materials. The determination of the quantities and qualities of such materials which are desirable for stock piling and the determination of which materials are strategic and critical shall be made in the manner prescribed by section 98a of Title 50. Strategic and critical materials acquired by Commodity Credit Corporation in exchange for agricultural commodities shall, to the extent approved by the Munitions Board of the Department of Defense, be transferred to the stock pile provided for by the Strategic and Critical Materials Stock Piling Act; and when transferred to the stock pile the Commodity Credit Corporation shall be reimbursed for the strategic and critical materials so transferred to the stock pile from the funds made available for the purpose of the Strategic and Critical Materials Stock Piling Act, in an amount equal to the fair market value, as determined by the Secretary of the Treasury, of the material transferred to the stock pile. Nothing contained herein shall limit the authority of the Commodity Credit Corporation to acquire, hold, or dispose of such quantity of strategic and critical materials as it deems adviseable in carrying out its functions and protecting its assets:

The Federal Property and Administrative Services Act of 1949 —

(f) Acceptance of property in lieu of cash

Any executive agency entitled to receive cash under any contract covering the lease, sale or other disposition of surplus property may in its discretion accept, in lieu of cash, any property determined by the Munitions Board to be strategic or critical material at the prevailing market price thereof at the time the cash payment or payments became or become due.

The Foreign Assistance Act of 1974 —

"Sec. 663. Exchanges of Certain Materials—(a) Notwithstanding any other provision of law, whenever the President determines it is in the United States national interest, he shall furnish assistance under this Act or shall furnish defense articles or services under the Foreign Military Sales Act pursuant to an agreement with the recipient of such assistance, articles, or services which provides that such recipient may only obtain such assistance, articles, or services in exchange for any necessary or strategic raw material controlled by such recipient. For the purposes of this section, the term 'necessary or strategic raw material' includes petroleum, other fossil fuels, metals, minerals, or any other natural substance which the President determines is in short supply in the United States.

"(b) The President shall allocate any necessary or strategic raw material transferred to the United States under this section to any appropriate agency of the United States Government for stockpiling, sale, transfer, disposal, or any other purpose authorized by law.

"(c) Funds received from any disposal of materials under subsection (b) shall be deposited as miscellaneous receipts in the United States Treasury."

The Act for International Development, 1961 —

Sec. 509.Exchanges—Defense articles or defense services transferred to the United States Government by a country or international organization as payment for assistance furnished under this part may be used to carry out this part, or may be disposed of or transferred to any agency of the United States Government for stockpiling or other purposes. If such disposal or transfer is made subject to reimbursement, the funds so received shall be credited to the appropriation, fund, or account funding the cost of the assistance furnished or to any appropriation, fund, or account currently available for the same general purpose.

The Strategic and Critical Materials Stock Piling Act of 1979 —

6(C)(1) The President shall encourage the use of barter in the acquisition of strategic and critical materials for, and the disposal of materials from the stockpile when acquisition or disposal by barter is authorized by law and is practical and in the best interest of the United States.

(2) Materials in the stockpile, the disposition of which is authorized by law, shall be available for transfer at fair market value as payment for expenses (including transportation and other incidental expenses) of acquisition of materials, or of refining, processing, or rotating materials, under this Act.

(3) To the extent otherwise authorized by law, property owned by the United States may be bartered for materials needed for the stockpile.

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APPENDIX 2

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release July 8, 1985

NATIONAL DEFENSE STOCKPILE POLICY

BACKGROUND

The President has decided to propose a modernization of the National Defense Stockpile of strategic materials. This proposal comes after 2 years of interagency study and thousands of hours of review at the staff and policy levels at twelve different agencies. The Administration intends to consult and work with the Congress on this important national security program before the new stockpile goals are transmitted.

The National Defense Stockpile is a reserve of nonfuel materials that the United States would require in a conflict, but that might not be available in sufficient quantities from domestic or reliable foreign sources. The previous Administration in 1979 calculated the United States' stockpile needs to be $16.3 billion for 62 materials using May 1985 prices. Toward this goal, the stockpile contains $6.6 billion in materials. The USG possesses an additional $3.5 billion of materials that are surplus to our requirements under the 1979 goals. Thus, unmet materials needs are $9.7 billion under the 1979 goals.

The President's April 5, 1982, "National Materials and Minerals Program Plan and Report to Congress" announced "a major interdepartmental effort to improve the Nation's preparedness for national mobilization." Part of the review was to address the potential national security impacts of shortages of strategic and critical materials. The review covered the 42 most significant materials in the stockpile. The remaining materials will be reviewed at a later date.

The key elements of the Nation's stockpile policy are as follows:

—The National Defense Stockpile will be sufficient to meet the military, industrial and essential civilian needs for a 3-year conventional global military conflict, as mandated by Congress in 1979.

—The conflict scenario used is to be consistent with the scenarios developed by DOD.

—The stockpile should reflect detailed analyses regarding the conflict period: essential civilian, industrial and defense mobilization requirements, foreign trade patterns, shipping losses, petroleum availability, and foreign and domestic demand and production levels for the materials in question.

POLICY DECISIONS

On the basis of the new stockpile study of materials requirements and supplies during a protracted military conflict, the President has decided that the stockpile for the 42 materials studied will now contain $6.7 billion in materials and include two tiers.

Goals of $.7 billion (Tier I) are proposed for materials that would be required during a protracted military conflict that would not be available in sufficient quantities from domestic or reliable foreign sources. The stockpile also will contain a Supplemental Reserve of strategic and critical materials currently valued at $6 billion (Tier II). The Supplemental Reserve will contain materials that the USG already possesses. This reserve will offer additional assurance against materials shortages during a period of military conflict. Both Tiers of stockpile provide over one year's peacetime levels of imports for such materials as chromium, manganese, cobalt and tantalum. These new stockpile goals will eliminate the $9.7 billion unmet goal.

The new stockpile will result in surplus materials of $3.2 billion, as opposed to the $3.5 billion surplus calculated by the previous Administration. The mix of materials considered to be surplus, however, is different.

The President has decided to sell a portion ($2.5 billion out of $3.2 billion) of the surplus materials stocks in a manner—over the next five years—that minimizes market impacts. An interagency group will evaluate ways to ensure that stockpile sales do no cause undue market disruptions.

Receipts from the sales program will go to fill unmet materials goals under the 1984 study, including any goals that may result from analyses of the twenty materials yet to be studied, including any new, high-technology materials; the remainder will go to reduce the deficit. The stockpile goals planning assumptions also will be used for other appropriate mobilization preparedness areas.

STUDY PROCESS

The 1984 stockpile study completed by the Administration included a review of the analysis, methods and assumptions used by the previous Administration in the 1979 study. This review concluded that a number of basic errors and unrealistic assumptions were used in the 1979 study. The present study relied on more realistic assumptions regarding oil availability, essential civilian requirements and domestic materials production. The new stockpile, unlike the one proposed in 1979, does not reflect the stockpiling of materials to ensure non-essential consumer production in a protracted military conflict. The stockpile does reflect essential civilian goods production with per capita consumption at more than twice the WW II level.

In the 1984 study, substantial improvements were made in analytic methods for estimating material requirements and available supply. These changes, the correction of errors and the use of more plausible assumptions, are the primary reasons for the revised goals. The 1984 study was started in 1983 and relied on actual data up to and including 1982 for all phases of the analysis. In all areas, the latest, best available data was used. By contrast, the previous 1979 stockpile goals relied on 1967 data in many cases.

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11 March 1986

The Honorable Charles E. Bennett
Chairman, Subcommittee on Seapower and
Strategic and Critical Materials
Committee on Armed Forces
House of Representatives
Washington, D.C. 20515

Dear Chairman Bennett:

In response to your kind invitation of February 12, 1986, I enclose my statement with respect to the strategic minerals and metals problem which your subcommittee is presently studying. This subject, in my considered professional opinion, addresses one of the most important issues confronting the United States today.

I applaud your concern with respect to the problem, and I fully support the legislative initiative you have undertaken in the Congress.

If I can be of further assistance to you in this laudable endeavor, please do not hesitate to call on me. Like yourself, the security of the United States--my retirement from active duty in the United States Navy notwithstanding--remains one of my prime concerns.

With warmest personal regards, I am

Sincerely,

Robert J. Hanks

RJH:dms

Robert J. Hanks
Rear Admiral
U.S. Navy (Retired)

Main Office: Central Plaza Building, Tenth Floor, 675 Massachusetts Avenue, Cambridge, Massachusetts 02139
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STATEMENT BY REAR ADMIRAL ROBERT J. HANKS, USN (RET)

to

The Subcommittee on Seapower and Strategic and Critical Materials

Committee on Armed Services

House of Representatives

11 March 1986

I welcome the opportunity to address this Committee with respect to the present condition of the National Defense Stockpile of strategic minerals and metals. The issue has long worried me, and I am pleased to discuss those worries with the Committee. As a former naval officer--having served in three wars--I am deeply concerned about U.S. ability to defend itself in the future. In particular, the status of American strategic metal and mineral reserves is, in my judgment, one of this nation's most pressing problems.

Having for many decades been seemingly self-sufficient in the raw materials which fueled the engines of American industry, it appears that we have become overly complacent with respect to their continuing availability. Petroleum provides an illuminating example of the position in which the United States now finds itself with respect to a number of crucial non-fuel minerals and metals.

With drilling of the world's first oil well near Titusville, Pennsylvania in the summer of 1859, the United States ushered in the era of petroleum energy. During the ensuing decades, this "black gold" gradually replaced coal as the prime source of industrial energy as well as making possible technological advances which eventually spawned a host of marvels, including internal combustion and jet engines. The staggering scope of the latter adaptations is, today, all about us.

As Americans sought for and discovered more and more petroleum resources within their own borders, the United States became the premier producer and, indeed, exporter of this new form of energy. It remained so for a little more than a century. When oil reserves were ultimately found in other parts of the world, American companies--armed with indispensable experience and technology--moved quickly to dominate their exploration, development, production, and distribution. All of this served to generate a sense of apathy which the historical record now reveals was wholly unjustified.

The fact that the petroleum equation was steadily undergoing dramatic changes was finally brought home to the American people, with stunning impact, in the fall of 1973 when Arab nations imposed an embargo on the United States in an attempt to change this nation's traditional policies toward the Middle East.

Less than a year before that embargo was imposed, I assumed command of the United States Middle East Force, a small group of men-o'war based in the Persian Gulf. Around the Gulf's littoral are situated the largest known reservoirs of oil on the face of the globe. At that time, with yet another war clearly approaching this tortured portion of the world, Americans were being told by the media and others in the United States that only three percent of their petroleum needs were being imported from the Gulf. Yet, just months before outbreak of the 1973 Middle East war--

religiously, Yom Kippur to Israeli and Ramadan to Arab--briefings accorded to me by American oil companies--in Kuwait, Bahrain, and Saudi Arabia--were demonstrating to my satisfaction that actual U.S. dependence was more on the order of 18 percent. If the latter figures were correct, it was evident that any cutoff would wreak havoc in the United States. The October 1973 embargo proved beyond doubt that the oil companies were right, and a complacent American public paid a heavy price for its ingrained attitude.

I spend time on this example because I perceive unsettling parallels between it and the situation which the United States confronts today with respect to a number of non-fuel minerals and metals. And, if I may, let me again return to the last century when this country was not only the foremost producer of petroleum energy, but was simultaneously leading the world into the industrial revolution.

Skilled people to do the work aside, two other ingredients are required to fashion the product abundance which not only Americans but much of the world currently enjoys. First, energy is required to run the factories. Second, raw materials must be available which the workers, aided by the aforementioned energy, can convert to usable items. It is in this context that complacency has once again invaded the American ken. There is abundant historical evidence to document its evolution.

Although the industrial revolution actually began in 18th-century England, it exploded in 19th-century America. Concurrently with two phenomenon--discovery of oil and eruption of industrial technology in the United States--this nation was busily expanding from its Atlantic shore beginnings to the opposite side of the continent. Along the way, of course, the pioneers traversed lands beneath which lay unrecognized deposits of metal and mineral ores which would one day permit the American industrial revolution to proceed at maximum speed and with minimum effort. Imports were largely unnecessary inasmuch as exploitation of natural resources within this country's boundaries expanded in direct relationship to the increasing demands.

Unfortunately, the very technology which made the United States great also presented a bill for its beneficence. The tab, in the form of changed requirements for raw materials, has come due in recent years. No longer do iron, copper, and lead ores constitute the major basis of modern American industry. As this country progressed from James Watt's simple reciprocating steam engine to supersonic jet aircraft, the need for unprocessed ores not only grew, but it changed dramatically.

The wholly new fields of aviation and electronics, for instance, have created demands for numerous new and, sometimes, exotic raw materials. As such requirements ballooned, the United States found itself caught between Scylla and Charybdis. Deposits of these materials which were located within the nation's borders either began to suffer depletion, or the reserves which remained were of such low quality that it was no longer economically feasible to mine and process their ores. Second, a large number of critical materials simply were not to be found in this country. Imports, therefore, commenced to grow and, today, the United States finds itself heavily--in some instances, totally--reliant on overseas sources for some of these now essential commodities.

President Eisenhower noted in 1963 that we entered the Second World War with inadequate supplies of what have come to be known as strategic minerals and metals. He asserted that, as a result, the war effort was seriously hampered in its early stages. He also observed that we cannot seem to learn such lessons. Five years after that war ended, the nation confronted identical problems when faced with war in Korea. Under President Eisenhower's leadership, the notion of stockpiling, rather than just being discussed, was finally implemented.

With respect to the present stockpile, we are, to be sure, far better off than we were in 1950. Nevertheless, two aspects of the current situation trouble me. First of all, the stockpile objectives established by the Congress--there should be sufficient materials on hand to "sustain the United States for a period of *not less than* three years in the event of a national emergency"--have never been fully met. In some instances, the shortfalls are alarming. And secondly, based on what I have learned of this Administration's study of stockpile requirements and the White House policy statement of July 8, 1985, it appears that the "lessons" derived from the experience of World War II and Korea are about to be "unlearned."

President Reagan's policy statement suggests to me that the stockpile is in danger of being dismantled, primarily for domestic political reasons. Its present deficiencies have been eliminated by the simple bookkeeping subterfuge of reducing objectives for some particularly critical materials from three years of national emergency supplies to one year's "peacetime" levels of imports. Moreover, it appears to me that the provision which provides that monies derived from sale of materials--excess stocks created in part by the cited changes in goals--could be diverted to reduce the national deficit. This seems to be in contravention of the 1985 Strategic and Critical Materials Stock Piling Act (P.L. 96-41, 50 U.S.C. 98 *et seq.*)

Although now retired, following 35 years of service in the United States Navy, I remain acutely concerned about the security of this country. Since retirement, I have been a close observer of and writer on international political and strategic affairs. Thus, the defense implications of the stockpile are matters of intense interest to me. I view the stockpile as an insurance policy underwriting increased prospects that the United States will be able to maintain its security, regardless of the external threats it might face. Administration policy with respect to the stockpile suggests that this insurance might be permitted to lapse at the precise time when unfettered American access to indispensable minerals and metals is being increasingly endangered by spreading instability within many of the source nations upon which this country currently depends.

Before addressing some of the arguments I have heard in support of reducing--or, perhaps, eliminating--the stockpile, let me offer some personal observations about the world in which we currently find ourselves. To begin with, I am not a believer in the so-called short-war scenario. Proponents of this concept maintain that the only real threat to the United States stems from Soviet ambitions to conquer Western Europe. They argue that any Warsaw Pact assault in Central Europe would quickly lead to nuclear war and the whole business would be over--one way or another--in thirty days or less. Overlooked by such advocates is the fact that the Soviet Union is now a "have" nation and, as such, could lose as much as the West in any nuclear conflict.

In my view, this means that nuclear deterrence will endure and that the future is likely to be characterized by conventional-weapon conflicts, insurrections, and political upheavals such as those which have punctuated history over the past four decades. As Korea and Vietnam abundantly demonstrated, even these can be long, intensive, and demanding. Given the current nuclear standoff between the United States and the U.S.S.R., it is conceivable that an extended conventional war--global in scope--involving these two powers could eventuate. In the foregoing cases, are we again to be caught short as we were in 1941 and 1950?

There are some observers--particularly the short-war enthusiasts--who maintain that an extended major war is simply not possible and, therefore, a large stockpile of critical materials is unnecessary. Can we afford to take this risk? Only the advent of a crisis leading up to a nuclear-versus-conventional weapon choice can answer this question. And, if these theorists were proved wrong, it would be too late to compensate for such a grievous error in judgment.

These same advocates put forth a comfortable assumption with respect to other threats to access to the raw materials the United States must import. Essentially, they hold that, "Regardless of a government's political hue, it will have to sell its natural resources to survive and will do so wherever the market permits." This is a facile dodge to avoid facing the political and military realities which have plagued the globe since the end of the Second World War. South Africa provides a perfect example.

Ignored in the foregoing premise is the fact that civil war can lead to destruction of production facilities, flight of investment capital, and departure of foreign technical and management personnel. Should the current unrest in South Africa--a primary supplier of many critical materials and possessor of a transportation network bringing still others to its ports from neighboring countries--result in widespread insurrection, means of production would become a prime target of the rebels. In many instances, it would be relatively easy to destroy mine-head installations as well as the infrastructure within the mines themselves. Similarly, embittered Afrikaners, if faced with loss of their country, could very well adopt a scorched earth policy, thereby creating the same effects. In either case, it could take years to restore the mines to anything like normal operation, even though a ruling government--regardless of its political complexion--was anxious to export the commodities to any market it could find. In this regard, a review of the precipitate drop in Iranian oil exports following the fall of the Shah--solely as a result of the departure of Western professional personnel--is instructive.

Moreover, one can fairly assert that the withholding of a commodity in times of crisis to achieve a political objective is not entirely unknown. This was precisely the purpose of the Arab oil embargo imposed on the United States in 1973-1974. The effect of such actions can be far reaching, even in peacetime. It has been estimated, for instance, that a cutoff of strategic materials from South Africa alone would affect some 3.2 million jobs in the United States. The steel, aerospace, transportation, and electronics industries would be the first and hardest hit. At the outset of a war, interdiction--for whatever reason--could prove catastrophic.

In a conflict's opening stages, the demand--as history has abundantly demonstrated--for open ocean escorts to protect merchantmen carrying needed raw materials will certainly exceed the number of such men-o'-war available. Thus, shipping losses are bound to occur and, the greater their extent, the larger the deleterious impact on the war effort.

Altogether, one must conclude that the picture is not nearly as rosy as some would have us believe. The National Defense Stockpile was established to provide a cushion against these and other eventualities. As suggested, it constitutes a security insurance policy for the United States, one that we will allow to lapse at our peril.

Let me now turn to House Resolution 3743. I fully support its provisions. In particular, I believe that the stockpile was orginally established, and remains, to serve the national defense of this country. Therefore, I strongly support provisions of H.R. 3743 which preclude its use for economic or budgetary purposes.

Furthermore, I firmly believe that formulation of its goals and their maintenance should be vested in the Secretary of Defense. While its purpose is to sustain military and *essential* civilian production in time of war or national emergency, its prime *raison d'etre* is to assist in underwriting the armed defense of this nation. On this basis, it is evident that the foremost interest in a viable strategic minerals and metals reserve resides within the Department of Defense. Vested interest, I submit, is a prime guarantee of proper operation and management.

In sum, I believe that the stockpile has neither been managed nor maintained in the past as effectively as it should have been. The objectives have been sound, but implementation has been seriously deficient. Finally, it appears that presently stated stockpile policies will do considerable harm to the stockpile's ability to fulfill national security needs. It is for these and the foregoing reasons that I support House Resolution 3743.

I thank the Chairman of this Subcommittee for the opportunity to present my views for its consideration.

Rear Admiral Robert J. Hanks, United States Navy (Retired) is Senior Political-Military Analyst with the Institute for Foreign Policy Analysis, a consultant to and member of various strategic institutes, a lecturer, and a free lance writer. He retired in 1977 following 35 years service in the U.S. Navy. His active duty assignments encompassed service in cruisers, destroyers, and naval aviation, including command of a destroyer, a destroyer squadron, and the U.S. Middle East Force. Ashore, he served in the International Security Affairs section of the Office of the Secretary of Defense and, at the time of his retirement, was Director, Strategic Plans and Policy for the Department of the Navy. A 1945 graduate of the U.S. Naval Academy, he subsequently attended the Naval War College and, in 1970-1971, was a Research Fellow at the Center for International Affairs, Harvard University. During the past twenty-five years, he has written extensively on international political-military affairs and maritime history.

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* Immediate Past Chairman
† Honorary

March 18, 1986

The Honorable Charles E. Bennett
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Bennett:

The House Subcommittee on Seapower and Strategic and Critical Materials recently held a hearing on H.R. 3743, a proposed revision of the Strategic and Critical Materials Stock Piling Act. The American Mining Congress (AMC) presented testimony to the Subcommittee at this hearing in support of the proposed legislation. A copy of our statement is enclosed.

As the Subcommittee may schedule a markup session on H.R. 3743 in the near future, we'd like to give you our views on this legislation.

H.R. 3743 proposes to vest in the Secretary of Defense responsibility for administering the stockpile program. We believe that such a move would represent an improvement over the present situation by clearly concentrating authority for a program that is now diffused in several directions among agencies having multiple responsibilities. Moreover, we have long advocated that the stockpile program could be r improved even further by entrusting its operation to an organization having no responsibilities other than administration and management of the stockpile. Such a quasi-public corporation would hold the stockpile and be empowered to buy or sell commodities as changing circumstances dictate.

H.R. 3743 further provides that the goals for materials in the National Defense Stockpile be established by law. Enactment of these goal-setting provisions would be a step forward in bringing some stability to the stockpile program. We have repeatedly endorsed a proposal that stockpile goals should be linked to the degree of import dependence, with goals gradually adjusted as import dependence shifts.

In the view of the American Mining Congress, the stockpile's chief value is the savings it can afford the nation in the event of emergency--savings not only in time but in manpower, transport, energy, and scarce equipment. The stockpile is basically a form of insurance with which the nation can buy time in the event of national emergencies. With time it is possible to increase domestic production, expand recycling, develop substitutes and even reduce demand.

If you have any questions regarding our position, please contact Keith Knoblock (861-2851) who has AMC staff responsibility for this issue.

Sincerely,

John A. Knebel
President

STATEMENT OF

JAMES A. FORD
DIRECTOR, ADVANCED TECHNOLOGY
AEROJET HEAVY METALS COMPANY

and

PRESIDENT
FEDERATION OF MATERIALS SOCIETIES

TO THE
SUBCOMMITTEE ON SEAPOWER AND
STRATEGIC AND CRITICAL MATERIALS
U.S HOUSE COMMITTEE ON ARMED SERVICES

March 14, 1986

In response to the invitation from Subcommittee Chairman Bennett, I am pleased to provide the following statement on National Defense Stockpile issues as addressed by H.R. 3743. The views expressed herein are my own although, as noted, many of the recommendations either have been endorsed by the Board of Trustees of the Federation of Materials Societies or have emanated from workshops at conferences sponsored by the Federation, which is a consortium of 13 technical organizations.

The Subcommittee is considering H.R.3743 against a backdrop of apparently little concern on the part of the Administration — and, it must be admitted, also on the part of the materials community — over the quantity and quality of materials in the stockpile. Most of these materials are currently in relatively good supply, so there is no "crisis mentality" to spur public attention to the stockpile. With no readily apparent crisis and faced with the urgent need to reduce federal deficits, the Reagan Administration wishes to cut stockpile goals and transfer part of the Stockpile Transaction Fund to general revenues. These actions are shortsighted and contrary to both Congressional intent and the public interest as defined by stockpile laws since 1939.

In 1982, a Task Force of the 7th Biennial Conference on National Materials Policy sponsored by the Federation of Materials Societies concluded that:

> "There is little disagreement over the need for and purpose of the stockpile. However, there is lack of public understanding about stockpile functions; there is a lack of industry input to the system; and there is a history of adverse effects from stockpile management decisions.
>
> "Many reports have identified specific problems and offered detailed

> recommendations on stockpile subjects such as the quality, form, and quantities of specific materials; the timing and methods of market transactions; the loss of domestic smelting and refining capability to convert current stockpile ores to usable form; and ways of providing industry input to stockpile management deliberations. Of primary concern is the accessibility of the stockpile to political and budgetary manipulation. We believe that many of these problems are due to deficiencies within the stockpile management system as established by existing enabling legislation.
>
> "We recommend that Congress...(consider) revised legislation that will provide for: (a) Insulation of stockpile management decisions from short-term political and budgetary pressures; (b) An effective industry advisory committee structure; (c) Authority, within defined limits, for stockpile management to use transaction funds, barter transactions, or other mechanisms to achieve and maintain quantity and quality objectives."

Unfortunately, except for the recent limited use of barter transactions, little if any progress has been made since 1982 on any of these three objectives.

The Task Force went on to recommend that funding to reach stockpile goals be given a high priority, that stockpile transactions be planned to minimize market impact, and that studies be undertaken to determine the quality level and form of stockpile materials vis a vis current use requirements. It should be noted that this last recommendation is being carried out in a series of assessments being conducted through cooperative arrangements between the Office of Strategic Resources in the Department of Commerce and the American Society for Metals.

Three years after the 7th Biennial Conference Task Force made its recommendations, the Reagan Administration issued its July 8, 1985 stockpile policy statement. In response, the Board of Trustees of the Federation of Materials Societies voted to endorse the recommendations of Admiral William Mott's National Strategic Materials and Minerals Program Advisory Committee "that agencies charged with determining goals for the National Defense Stockpile observe a procedure that includes the following steps to ensure that the goals provide an acceptable level of preparedness:

(1) consultation with expert representatives from Government and private sector materials and minerals producers, processors, end-users, and recyclers;

(2) evaluation of needs on a commodity-by-commodity basis, with

emphasis on technological and not economic considerations;

(3) consideration of industrial and essential civilian needs as well as military-defense needs;

(4) thorough Government-wide and private sector review of current and emerging technology to enable sound judgments to be made about which stockpiled materials are obsolete (and should, therefore, be disposed of) and which materials — including those with little or no present commercial utility — should be added to the stockpile for defense purposes;

(5) broad review of the criteria used to determine stockpile goals to assure that they include: (a) reasonable assumptions about the level of austerity that Government should impose on its citizens to accomodate defense mobilization; (b) proper regard for historical experience during prior mobilizations; (c) allowance for the importance of maintaining civilian morale during a shift to a mobilization economy; (d) strict adherence to all existing laws applicable to the National Defense Stockpile."

In summary, the following are the essential points to be covered in any legislation affecting the National Defense Stockpile:

- Stockpile management decisions must be taken for strategic purposes, not to satisfy economic demands. The management system must be removed from political and budget considerations. To this end, H.R.3743 appears to take a first step. However, I personally would recommend establishment of a stockpile management corporation.
- The stockpile management system should be predicated upon continuity of policy, up-to-date quality of materials, and sound business economics.
- Industry (and to a lesser extent academia), as well as government, should have input to stockpile management decisions.

I appreciate the opportunity to make this statement, and would be happy to provide further information or answer any questions the Subcommittee might have.

Administrator
General Services Administration
Washington, DC 20405

March 10, 1986

Dear Mr. Chairman:

Your Committee requested the views of the General Services Administration (GSA) on H.R. 3743, a bill "To provide for the establishment by law of the goals for the National Defense Stockpile, and for other purposes."

Principally, H.R. 3743 would amend section 3 of the Strategic and Critical Materials Stock Piling Act (Stock Piling Act) (50 U.S.C. 98, et seq.) to establish by law the quality, quantity, and form of strategic and critical materials for the National Defense Stockpile (Stockpile) and would add a new section to the Stock Piling Act to limit to the Secretary of Defense any delegation of the functions given the President by sections 6 (Stockpile Management), 7 (Special Disposal Authority of the President), 10 (Advisory Committees), and 11 (Reports to Congress) of the Stock Piling Act.

We strongly oppose the enactment of H.R. 3743. Presently, the Stock Piling Act grants unfettered authority to provide for the Stockpile and leaves the President the flexibility to delegate this responsibility by Executive order. Executive Order 12155 delegated to GSA the authority to manage the Stockpile and the authority to appoint Advisory Committees, and delegated to the Federal Emergency Management Agency (FEMA) authority for certain policy determinations and the responsibility for submitting certain reports to the Congress. The flexibility, given the President in the Stock Piling Act, to distribute the Stockpile functions achieves a vital check-and-balance system which would be lacking if Stockpile authorities were restricted to one agency.

The present distribution of authorities between FEMA and GSA was instituted for the specific purpose of avoiding the "undue influence" of any one ultimate user of the Stockpile materials on decisions of Stockpile management and policy. Although the purpose of the Stockpile is only to serve the interests of national defense, the Stockpile contains, in addition to materials for Department of Defense (DOD) use, commodities for essential civilian needs and for use by other Government agencies such as the Department of Energy and the National Aeronautics and Space Administration. In determining priorities for the purchase of commodities for the Stockpile, FEMA and GSA are in a position to make decisions without regard to their own needs. To concentrate these authorities in DOD would not only give one Stockpile user the opportunity to make unilateral decisions giving inordinate priority toward its needs at the expense of the other potential users, but create the potential for such an unbalanced policy.

The question as to the appropriateness of placing all aspects of the management and operation of the Stockpile under a single authority, such as the Secretary of Defense, was addressed in the President's February 8, 1985, Report on the Stockpile to the Congress prepared pursuant to section 904 of Public Law 98-525 (Department of Defense Authorization Act, 1985). The report stated, in pertinent part, that:

> "Through interagency forums, the Department of Defense already participates fully in developing stockpile goals and approving acquisition/disposal plans. Day-to-day stockpile operations require expertise in supply management. GSA, which has the primary responsibility for management of government property, has such expertise and has a demonstrated capability to manage the stockpile. For these reasons, placing such commercial operations under the Department of Defense was not favorably considered." (Emphasis added.)

To further improve GSA's capability to manage the Stockpile, a new Office of National Defense Stockpile was recently established in the agency's Federal Property Resources Service. This initiative, which consolidated all Stockpile operations and management functions under the leadership of one manager, was taken to provide better management control, to permit increased program and resource flexibility, and to provide for more effective and timely execution of functions mandated by the Stock Piling Act.

With respect to the authority to appoint individuals to Advisory Committees which would advise on Stockpile management, no rational reason exists for removing this function from GSA and redelegating it to the Secretary of Defense. GSA solicits advice from many sources and, in fact, participates fully in the activities of a number of Stockpile-related advisory committees, working groups, and panels, including the Annual Materials Plan Steering Committee, the Interagency Committee for Stockpile Purchase Specifications, the Interagency Mineral Commodity Committees, the National Strategic Materials and Minerals Program Advisory Committee, the Office of Science and Technology Policy Committee on Materials, the Technology Advisory Group to the Trade Policy Steering Committee under the United States Trade Representative, the American Society for Metals, the National Academy of Sciences technical panels on selected Stockpile materials, and the Interagency Barter Working Group under the Emergency Mobilization Preparedness Board.

In view of GSA's 30-year experience in all aspects of Stockpile operations from acquiring, analyzing, upgrading, and storage to disposal of Stockpile materials, and reportedly excellent record in managing the Stockpile, we believe that strong evidence exists that the proper placement of this management activity would lie better with GSA whose main mission is doing "commercial business" than with the Secretary of Defense whose fundamental function is managing the Armed Services.

Finally, we note that section 1(b) of H.R. 3743 would amend section 3 of the Stock Piling Act to establish the Stockpile goals by law. GSA opposes this provision. We believe that the establishment of Stockpile goals for national defense purposes is within the purview of the executive branch. Accordingly, we believe the statutory establishment of such goals under this section to be inappropriate.

The Office of Management and Budget has advised that, from the standpoint of the Administration's program, there is no objection to the submission of this report to your Committee.

Sincerely,

TC Golden
Terence C. Golden

The Honorable
Les Aspin
Chairman, Committee on
  Armed Services
House of Representatives
Washington, DC 20515

THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

3 MAR 1986

Honorable Charles E. Bennett
Chairman, Subcommittee on Seapower and
Strategic and Critical Materials
Committee on Armed Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your recent invitation to appear before the Subcommittee on Seapower and Strategic and Critical Materials to present the Defense Department's views on H.R. 3743. Your proposed legislation would transfer management of the National Defense Stockpile to the Secretary of Defense as well as establish by law the goals for the stockpile.

A long-standing Departmental policy that the Secretary only testifies before full Committees precludes my accepting your kind invitation. But the subject matter is of such importance that I am attaching my written statement for the hearing record. Thank you for this option.

Sincerely,

Cap Weinberger

Attachment

PREPARED STATEMENT OF HON. CASPAR W. WEINBERGER,

SECRETARY OF DEFENSE

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE. I APPRECIATE THIS OPPORTUNITY TO PROVIDE THE VIEWS OF THE DEPARTMENT OF DEFENSE ON H.R.3743, A BILL TO PROVIDE FOR THE ESTABLISHMENT BY LAW OF THE GOALS FOR THE NATIONAL DEFENSE STOCKPILE, AND FOR OTHER PURPOSES.

THE DEPARTMENT OF DEFENSE VIEWS ARE BASED UPON THE PRESIDENT'S REPORT TO THE CONGRESS PURSUANT TO SECTION 904 OF THE OMNIBUS DEFENSE AUTHORIZATION ACT OF 1985. IN AUGUST 1983, A MAJOR REVIEW OF THE STRATEGIC AND CRITICAL MATERIALS STOCKPILING PROGRAM WAS BEGUN TO ASSURE THAT IT APPROPRIATELY REFLECTED THE REQUIREMENTS OF NATIONAL DEFENSE PREPAREDNESS. THE REVIEW HAS BEEN COMPLETED AND THE ADMINISTRATION'S PROPOSALS HAVE BEEN PROVIDED TO MEMBERS OF CONGRESS INCLUDING THE UNDERLYING ANALYSIS.

AS TO THE APPROPRIATENESS OF PLACING ALL ASPECTS OF THE MANAGEMENT AND OPERATION OF THE STOCKPILE UNDER THE SECRETARY OF DEFENSE, THE PRESIDENT HAS ADVISED THE CONGRESS THAT SUCH AN ASSIGNMENT HAS NOT BEEN FAVORABLY CONSIDERED, PARTICULARLY DUE TO THE COMMERCIAL APPLICATIONS OF THE STOCKPILE.

THE ADMINISTRATION IS STRONGLY OPPOSED TO THE PROPOSED ELIMINATION OF LONG STANDING PRESIDENTIAL STOCKPILE GOAL SETTING AUTHORITY. MATERIAL GOALS MUST BE ESTABLISHED BASED ON A THOROUGH ANALYTICAL ASSESSMENT OF SECURITY THREATS AND PROJECTIONS OF MATERIAL REQUIREMENTS AND AVAILABLE SUPPLIES. SUCH ANALYSIS REQUIRES THE EXPERTISE OF A BROAD RANGE OF AGENCIES INCLUDING CIA, ENERGY, STATE, AND INTERIOR.

SILVER USERS ASSOCIATION 1717 K ST., NW—WASHINGTON, D. C.—20006—(202)785-3050

March 10, 1986

The Honorable Charles E. Bennett
Chairman, Subcommittee on Seapower and
Strategic and Critical Materials
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Bennett:

This letter with enclosure is submitted for the hearing record held on H.R. 3743, February 27, 1986.

Members of the Silver Users Association (SUA) have not taken a position on H.R. 3743 as introduced; however, during the hearing Senator James McClure asked that his bill, S. 2102, which proposes that an import-dependency formula to use in determining stockpile goals be incorporated in H.R. 3743.

SUA has testified in the past that unless the import-dependency formula is amended to take into consideration the availability of commodities from the Western Hemisphere and especially Canada and Mexico it could result in an unnecessarily high stockpile level for silver and perhaps other commodities.

The enclosure explains further how the McClure proposal could be amended if a departure from previous procedures is approved.

Sincerely,

Walter L. Frankland, Jr.
Executive Vice President

Enclosures:

"SUA Supports Amended S. 2102"
"Silver Statistics Relating to NDS"
List of SUA Members
Fact Sheet: Purpose of SUA

WLF/bn

This mark is a mediaeval alchemist's symbol for silver. The modern chemical symbol is Ag, the atomic number 47.

SILVER USERS ASSOCIATION 1717 K ST., NW—WASHINGTON, D.C.—20006—(202)785-3050

SUA SUPPORTS AN AMENDED IMPORT-DEPENDENCY FORMULA FOR DETERMINING OBJECTIVES (S. 2102)

As background it should be noted that for more than ten years, the stockpile objective as determined by the government was zero. A determination by the General Accounting Office in April, 1979 even declared,"...that the silver supply exceeds the projected wartime requirements". The proposals contained in S. 2102 would mean an important departure from past practices used to determine the size of stockpiles for the many commodities deemed essential for strategic purposes. Due to the sensitivity of many of these wartime factors and assumptions, the Silver Users Association as one of the affected publics in this legislative area has not had the information necessary to critique past practices. It still does not have that information and does not now criticize the methodology so developed. For that reason, SUA has not advocated a particular stockpile level for silver. Its position has been to advocate disposal of that portion of the stockpile determined surplus by the government after the application of what one can easily understand to be a very complex procedure.

S.2102 provides for three classes of commodities in the National Defense Stockpile (NDS) and a separate level of stockpile material applicable to each class. Definitions of the three classes and their respective goals according to Senator McClure are as follows:

"The United States is obviously most vulnerable to supply difficulties with respect to commodities which it does not produce in any significant quantities. In the bill these materials are designated as class A. Those commodities which represent materials of which the United States has some production but is unlikely to achieve self-sufficiency even with severe rationing or substitution are classified as class B. Finally, those commodities which the United States produces in substantial quantities but for which it has some import dependence are designated as class C. The importance of these designations is that the goals would rely on our foreign dependency. For commodities in class A, the goal would be equal to a 3-year supply of a 5-year average of net imports. For class B, the goal would be a 2-year supply; and for class C, the goal would be a 1-year supply."

With the development of the import-dependency concept and formula for determining stockpile objectives, now embodied in S.2102, SUA has studied the proposal. It finds that when relying solely upon import-dependency for determining goals, there are at least three weaknesses to the formula. First, for any given commodity the five-year net import record possibly establishes a false base from which to begin since peacetime uses of these commodities could be far different from wartime requirements. Additionally, during peacetime, speculative activities could distort even further the import picture especially of precious metals.

Second, gross import figures as proposed by Senator McClure give no weight to the relative security of wartime resources in Canada, Mexico and the rest of the Western Hemisphere. It should be evident at the start that problems in obtaining commodities especially from Canada and Mexico to meet emergency defense needs of a joint nature would be highly unlikely.

Third, above ground stocks of some commodities in the private sector could quickly be made available to meet defense requirements without resorting to a large government stock of expensive materials. In the case of domestic silver, the government study entitled, "The Price-Responsiveness of Secondary Silver", (NTIS #PB82-208422) estimates above-ground stocks in 1981 at 2.5 billion ounces in bullion, coins and sterlingware. Government statistics since then have indicated a growth in these stocks of at least 240 million ounces.

Although silver is the commodity which has clearly demonstrated what one could label as a weakness in the concept, many other commodities are also available from the Western Hemisphere, especially Canada and Mexico.

It can be argued, perhaps, that the responsibility for determining in which category a particular commodity is classified permits the interagency committee some flexibility in this regard ; however, just such subjective judgment is of the type which the bill was designed to eliminate.

Accordingly, if the import-dependency concept is incorporated in stockpile legislation, SUA would urge subcommittee members to amend the procedure so that accessibility of commodities largely available from the Western Hemisphere, especially Canada and Mexico, is clearly recognized. To clarify this point, let us use silver as an example:

Following a strict interpretation of the proposal contained in S.2102, the annual gross import deficit in silver is 80 million ounces. On the average, the net annual imports from Canada are 26 million ounces and from Mexico some 27 million ounces per year. Using the imports from the two neighbors as an offset to the gross annual import deficit, the more reasonable deficit level would be 27 million ounces, rather than 80 million ounces per year.

Put in percentage terms, we see 66% of the deficit is represented by the silver which flows across our borders from our neighbors while another 33% arrives from other countries in the Western Hemisphere.

Again, referring to S.2102, silver if deemed a strategic commodity by the interagency committee, by strict definition would fall into Category B -- or a two-year level of stocks based on net import-dependency. Without considering Western Hemisphere availability of the white metal, the stockpile level would be 160 million ounces. When a more realistic approach of using Western Hemisphere silver as an offset is considered, the stockpile level is reduced to zero. It rises to 54 million ounces if the offset is restricted to the silver received from Canada and Mexico. It is still higher, at 108 million ounces when only the silver from Canada offsets the gross deficit for the two-year category.

SUA firmly believes that applying the amount of any commodity available from the Western Hemisphere, especially Canada and Mexico, as an offset to the gross deficit to determine the stockpile level is a logical and acceptable procedure should the Congress choose to depart from the methodology adopted by previous interagency stockpile committees. Therefore, SUA recommends the following changes to S.2102.(page 3 beginning with line 17 through line 25)

"(A) The stockpile objective for any material designated as a class A material shall be a quantity equal to three years' domestic net imports of such material, less the net imports of the material from the Western Hemisphere during the same period.

"(B) The stockpile objective for any material designated as a class B material shall be a quantity equal to two years' domestic net imports of such material, less the net imports of the material from the Western Hemisphere during the same period.

"(C) The stockpile objective for any material designated as a class C material shall be a quantity equal to one year's net imports of such material, less the net imports of the material from the Western Hemisphere during the same period..."

March, 1986

Silver Statistics Relating to the National Defense Stockpile

(Millions of Ounces)

Current supply held in strategic stockpile	137.5 (one million on loan)
Stockpile Objective (January 1985)	None
Stockpile objective (White House July 8, 1985)	87.5 (Supplemental Reserve)
Annual average net-import deficit	80
Annual average net import offset from Canada	26
Annual average net import offset from Mexico	27
Annual average offset from Western Hemisphere	80

S.2102 - Two year objective for silver	160
S.2102 - with Western Hemisphere import offset	zero
S.2102 - with Canada and Mexico offset	54
S.2102 - with Canada offset	108
S.2102 - with Mexico offset	106

March 7, 1986

SILVER USERS ASSOCIATION, INC.
1717 K Street, N.W. #404
Washington, D.C. 20006

PHOTOGRAPHIC MATERIALS

Ames Goldsmith Corporation, Glens Falls, New York
Bicknell Photo Service, Portland, Maine
E.I. du Pont de Nemours & Company, Inc., Wilmington, Delaware
Eastman Kodak Company, Rochester, New York
Minnesota Mining and Manufacturing Company (3M), St. Paul, Minnesota
Peerless Photo Products, Shoreham, New York
Polaroid Corporation, Cambridge, Massachusetts
Polychrome Corporation, Clark, New Jersey
Powers Chemco, Inc., Glen Cove, New York
Rhone-Poulenc Systems Company, Parsippany, New Jersey

SILVERWARE

Lunt Silversmiths, Greenfield, Massachusetts
Oneida, Ltd., Oneida, New York
Reed & Barton Corporation
Tiffany & Company, New York, New York

FABRICATED AND INDUSTRIAL PRODUCTS

Checon Corporation, Attleboro, Massachusetts
Engelhard Corporation, Iselin, New Jersey
Eaton Corporation, Milwaukee, Wisconsin
Gannon & Scott, Inc., Cranston, Rhode Island
Gemark Corporation, Newburgh, New York
Handy & Harman, New York, New York
J.W. Harris Company, Inc., Blue Ash, Ohio
Metz Metallurgical Corporation, South Plainfield, New Jersey
National Refining Corporation, Gallatin, Tennessee
PGP Industries, Inc., Santa Fe, California
The Royal Metals Corporation, Stamford, Connecticut

ASSOCIATIONS

Manufacturing Jewelers & Silversmiths of America, Inc., Providence, Rhode Island
National Association of Mirror Manufacturers, Potomac, Maryland
(suburban, Washington, D.C.)

February, 1986 TAB "D"

SILVER USERS ASSOCIATION, INC. 1717 K Street, N.W. #404
Washington, D.C. 20006 (202) 785-3050

FACT SHEET: PURPOSE OF SUA, INC.

The Silver Users Association, Inc, established in 1947, represents the interests of corporations that make, distribute, and sell products in which silver forms an essential part. Association membership today includes representatives from the Photographic, electronic, chemical, commemorative arts, silverware and jewelry industries; producers of semi-fabricated and industrial products; and mirror manufacturers.

A major purpose of the Association is to keep its members and the public informed on the pertinent developments in the field of silver; such as, production, consumption, availability, uses, regulations and legislation.

The applications of silver are highly diversified and range from photography to missiles; from computers to sterling jewelry. An approximate breakdown of the silver usage in the U.S. shows these percentages: photography, 48%; electrical and electronics, 24%; sterlingware, 3%; brazing alloys; 5%; electroplated ware, 3%; 2%, jewelry, 5%; commemorative and collector arts, 2%; dental and medical, 1%; and all others such as bearings, mirrors, rockets and missiles, 7%.

The Association estimates that its members account for at least 80% of all silver consumed in the United States. More than 80,000 men and women work for Association members who are heavily dependent upon silver for manufacturing. In addition, there are about 1,200 firms of the Manufacturing Jewelers and Silversmiths of America and the National Association of Mirror Manufacturers, and their employees. The Association was incorporated in the District of Columbia in April, 1971.

President of the Silver Users Association is Mr. Robert E. Wiele, of 3M Company. Mr. E. Richard Rosenblatt, of Polaroid Corporation, is Vice President and Chairman of the Executive Committee. Mr. Philip G. Deuchler, Handy & Harman, is Treasurer. In addition to these three officers, other members of the Executive Committee are:

Nelson B. Colton	Engelhard Corporation
Donald E. Conaway	Checon Corporation
George Frankovich	Manufacturing Jewelers & Silversmiths of America
Dr. Kamran Habibi	E.I. du Pont de Nemours & Company
Denham C. Lunt, Jr.	Lunt Silversmiths
Edward L. Lutterbein	Eastman Kodak Company
W. Peter Metz	Metz Metallurgical Corporation
Doug Smith	Powers Chemco, Inc.
Sinclair Weeks, Jr.	Reed & Barton Corp.

Walter L. Frankland, Jr., Executive Vice President-Secretary, SUA

February, 1986

Federal Emergency Management Agency
Washington, D.C. 20472

FEB 28 1986

The Honorable Les Aspin
Chairman
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This replies to your request for the views of this Agency on H.R. 3743, 99th Congress, a bill "To provide for the establishment by law of the goals for the National Defense Stockpile, and for other purposes."

The Federal Emergency Management Agency opposes the bill. The establishment of stockpile goals must be determined at the appropriate level of government where full account can be taken of current and future defense preparedness planning. It is very important to have the input of all the involved agencies when determining stockpile goals. Specifically, stockpile goal determination includes highly classified judgments as to the availability and accessibility of foreign sources of supply, economic policies and impacts, possible wartime losses on shipping lanes, energy supply availability, and the status of mutual defense agreements. Legislatively established goals would, by definition, not have the benefit of this degree of involvement of the relevant experts in the various agencies or the benefit of incorporating the above types of information.

Regarding centralizing stockpile management, the Department of Defense already participates fully in developing stockpile goals and approving acquisition disposal plans through interagency forums. The General Services Administration has demonstrated its capability to manage the stockpile and consequently H.R. 3743 does not provide any operational enhancements.

The Office of Management and Budget advises that there is no objection from the standpoint of the Administration's program to the submission of this report for the consideration of the Committee.

Sincerely,

S W Perry

Spence W. Perry
Acting General Counsel

GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE

WASHINGTON D.C. 20301

February 28, 1986

Honorable Les Aspin
Chairman, Committee on Armed Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your request for Department of Defense views on H.R. 3743, 99th Congress, a bill "To provide for the establishment by law of the goals for the National Defense Stockpile, and for other purposes."

The Department of Defense opposes H.R. 3743 since it precludes Executive Branch prerogatives and functions in management of the National Defense Stockpile plus proposing transfer of funding for the National Defense Stockpile to the Department of Defense budget. We have included the following specifics in our evaluation of H.R. 3743:

> (1) Sec. 3 proposes that the quality and quantity of materials to be acquired and stored in the National Defense Stockpile be established by law. This proposal would replace presidential authority with a cumbersome legislative process that would not allow the flexibility needed in making detailed technical adjustments concerning materials to be held in the National Defense Stockpile inventory. We believe management decisions should not be subjected to the legislative process.
>
> (2) Sec. 14(a) proposes that certain functions of the President may only be delegated to the Secretary of Defense. This proposal would make the Secretary responsible for virtually all of National Defense Stockpile management, including acquisition, storage, refining, processing, rotation, disposal, advisory committees, and reports to Congress. We believe day-by-day management decisions for materials to be ultimately used by United States industry should not be primarily assigned to the Secretary of Defense and should remain with a civilian agency.
>
> (3) Sec. 15 proposes that appropriations for operation of the National Defense Stockpile shall be made to the Department of Defense as part of military functions. We believe operational cost of managing the National Defense Stockpile should not come from the Department of Defense budget and should remain a separate annual appropriation.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to submittal of this report to the Committee.

Sincerely,

H. Lawrence Garrett, III

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U.S. House of Representatives
COMMITTEE ON ARMED SERVICES
Washington, DC 20515
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G. KIM WINCUP, STAFF DIRECTOR

February 7, 1986

Honorable Caspar W. Weinberger
Secretary of Defense
U. S. Department of Defense
The Pentagon, Room 3E880
Washington, D. C. 20301

Dear Mr. Secretary:

This is a request for your personal appearance before the Subcommittee on Seapower and Strategic and Critical Materials to present the Department's views on H.R. 3743 which would transfer the management of the National Defense Stockpile to the Secretary of Defense as well as establish by law the goals for the stockpile.

The hearing will be held on Thursday, February 27, 1986, at 9:00 a.m. in room 2212 Rayburn House Office Building. The committee will be happy to work with you in scheduling your appearance anytime during the morning of the 27th.

The committee encourages your attendance if at all possible. In the event you cannot attend, we will be pleased to include your written statement in the hearing record.

A copy of H.R. 3743 is enclosed for your information.

With kindest regards, I am

Sincerely,

Charles E. Bennett
Chairman, Subcommittee on Seapower and
Strategic and Critical Materials

CEB:dpc

Enclosure

Jim Erwin [illegible]-2526 [illegible]

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